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2003/2004 Annual Report of the Auditor General of British Columbia

Serving the Legislative Assembly and the People of British Columbia

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Sir:

I have the honour to transmit the 2003/2004 Annual Report of the Office of the Auditor General to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 22 of the Auditor General Act. The report is also available on our website: www.bcauditor.com.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
June 2004

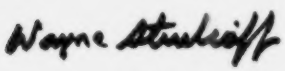
copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

Accountability for Annual Report

The 2003/04 Annual Report of the Auditor General of British Columbia was prepared under my direction. I am accountable for the organization's performance, the selection of performance measures, and how actual performance has been reported. The information presented reflects the actual performance of the Office of the Auditor General for the twelve months ended March 31, 2004.

The information presented represents a comprehensive picture of our actual performance in relation to our Service Plan. This report contains estimates and significant interpretive information that represents the best judgement of management.

The Office of the Auditor General is making progress in incorporating the British Columbia Performance Reporting Principles. Incorporation of these principles into our public performance reporting is ongoing. This document is intended for a general audience. Specific users may require more detailed information than is contained in this report.



Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
June 2004

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Auditor General's Message

Wayne Strelioff, FCA
Auditor General

I am pleased to present to Members of the Legislative Assembly the annual report of my Office for the fiscal year ended March 31, 2004. This annual report describes what we have accomplished over the last year and what key challenges and changes we anticipate over the next year. It also includes the results of two surveys we conducted of our clients (legislators) and stakeholders (organizations we audited). This is the first year we solicited feedback from our clients and stakeholders in a structured way. This information will help us shape our future plans and work to continuously improve our performance.

The new Auditor General Act

A significant development for the Office was the proclamation of a new Auditor General Act in April 2003. The Act strengthens both our independence from government and our accountability to the Legislature. It allows legislators to scrutinize the performance of government with more rigour and objectivity, and gives them the opportunity to oversee the appointment of financial statement auditors for the whole of the government reporting entity.

This being the first year of the new Act means it was also our first time acting on the new provisions. During 2003/04, for example, we prepared our first three-year financial statement audit coverage plan and submitted it to the Public Accounts Committee for review and approval. We also presented our service plan and funding proposal to the Finance and Government Services Committee. These documents—and their review by committees of the Legislative Assembly—are important aspects of establishing the appropriate accountability relationship between the Auditor General and the Legislative Assembly, a relationship in which the Auditor General supports the Legislative Assembly in its oversight of the government.

Our key achievements

In the interviews we conducted of legislators, I was gratified to hear their overwhelming support for the work of our Office. As outlined in the Auditor General Act, we are the auditor of the Summary Financial Statements and may also audit government organizations and trust funds. In preparing our first financial statement audit coverage plan, we consulted widely with

government organizations and trust funds as well as the audit community. The result was a realignment of our audit coverage in a way that enables us to gain greater insight across the entire government entity.

Beginning in 2004/05, the government will be preparing its Summary Financial Statements in accordance with Canadian "generally accepted accounting principles" (GAAP), providing a more rigorous accounting of the full nature and extent of the responsibilities of government. This achievement—for both our Office and for government—has been in development for some time. We have been encouraging the provincial government to adopt GAAP for many years, and preparing to do so has been a significant undertaking for government.

We also made good progress in encouraging more meaningful performance reporting. In October 2003, government, legislators and I endorsed the "BC Reporting Principles." These are the elements that a complete and credible report on performance should contain.[1] Rooted in emerging national performance reporting principles, these principles formed the basis of my review of the quality of the 2002/03 annual reports of government.

Government has supported the principle that independent assurance should be provided on the reliability of the information that government presents in its annual reports. This means providing assurance, not only on the financial statements (as is currently done), but on all of the key performance information provided in the reports. We believe that giving readers assurance about the reliability of performance information will strengthen its credibility, which will in turn enhance the quality and usefulness of the reports. We are working with government to develop an assurance program for British Columbia. To this end, we have completed a number of pilot projects and plan to continue this learning process to develop an assurance program that is right for the province.

Our third line of business is auditing how government manages its key risks. In 2003/04 we completed three such audits. We were happy to find out that all of the legislators we met with agreed that our topics were relevant. We will continue to monitor the relevance of our topics, balancing immediate, high-interest projects (such as the 2010 Winter Olympic Games) with those

[1] See "Performance Reporting Principles for the British Columbia Public Sector, principles endorsed by government, the Select Standing Committee on Public Accounts and the Office of the Auditor General" (November 2003) on our website: www.bcauditor.com.

having ongoing and longer-term impacts (such as the Alternative Payments Program in the health sector).

The year ahead

We are preparing ourselves for some tough challenges over the next few years that we will need to manage well if we are to continue to fulfill our mandate and meet the expectations of our clients.

We fully support the Government's move towards GAAP, but this also has implications for our Office. Next year, for the first time, universities, colleges and institutes, school districts and health care organizations will be fully reported in the Summary Financial Statements—expanding our audit universe by about 100 organizations. We intend to manage this increase in three ways: 1) by increasing the proportion of our funding directed to this line of business; 2) by increasing our oversight role; and 3) by relying more on audit work conducted by the private sector.

Another of the more significant challenges we anticipate is the emerging change in auditing standards. To assist in restoring public confidence in financial reporting and auditing, the auditing standard setters are putting more rigorous requirements in place to guide the profession. While these standards raise the bar for auditors and will require greater audit effort, they also have the potential to earn greater public confidence in the accountability process. To manage this challenge, we have dedicated staff to helping us better understand the new standards and how they apply to our Office. Although I'm confident that our current policies and practices are sound, I also believe we need to be proactive and incorporate the newer standards into our audit approach over the next two years.

Meeting these increasing workload demands with less funding and fewer experienced people represents a major challenge for the Office. Our appropriation was reduced by 5% 2003/04 and a further 10% in 2004/05. We are also losing over half of our senior executives as they opt for early retirement. We are managing these challenges in various ways. First, we are reducing the number of senior positions in the Office and changing our structure from five operating sectors to four. We

have also modified our work program to fit the funding provided—that is, we're doing less with less. And we have developed a number of human resource strategies, such as the leadership development program, employee developments plans and our mentoring program, to ensure we develop our staff so that they are ready to take on leadership roles in the Office.

In summing up, I wish to thank my staff for their outstanding contribution to the work of the Office over the past year. Their continued dedication and pursuit of excellence gives me great confidence that we will continue to provide legislators and the public with the best information possible for assessing the performance of government.

Our Performance at a Glance

The following table contains our key outcome measures.

Key Outcome Measures for 2004	2004 Target	2004 Actual	2005 Target
1. Percentage of government organizations, included in the government reporting entity, following generally accepted accounting principles (see page 28)	New Measure	98%	100%
2. Percentage of audited organizations following best practices in financial statement reporting (see page 29)	New measure	Not yet measured	Establish baseline
3. Legislators believe in the value of the Auditor General's regular examination of government's financial statements (see page 30)	80%	100%	100%
4. Percentage of annual reports that have reached "fundamentals in place" for: 1 reporting principle 2-4 reporting principles 5-8 reporting principles (see page 33)	No target	14% 6% 6%	No target
5. Legislators believe in the value of the Auditor General's efforts in performance management and reporting (see page 34)	80%	89%	90%
6. Legislators make use of government's performance reports in their deliberations or decision-making (see page 34)	New measure	76%	90%
7. Legislators believe topics chosen by the Auditor General are relevant (see page 37)	80%	100%	100%
8. Legislators believe in the value of our examinations of how risks are being managed (see page 37)	80%	89%	95%
9. Percentage of our recommendations endorsed by the Public Accounts Committee (PAC) (see page 38)	95%	100%	100%
10. Percentage of our recommendations implemented (see page 38)	New measure	58%	75%
11. Legislators believe information in the Office's reports is presented in an objective and unbiased manner (see page 42)	80%	94%	95%
12. Audited organizations are satisfied with the way we conduct our work (see page 42)	New measure	61%	70%

Note: The Office of the Auditor General's "Methodology Report" contains a description of each of the measures contained in this report, including the methodology used, target rationale and data sources (www.bcauditor.com).

Our Vision

Making a difference for the people of British Columbia by contributing to accountable and well-performing government

Our Mission

To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance

Goals

1. Legislators and the public receive the best information possible for assessing the performance of government.
2. We are an exemplary organization that serves the Legislative Assembly and the public.

Values

As we pursue our goals, we are committed to:

Excellence

We strive to meet the highest standards of service, professionalism, integrity and independence.

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.

We seek to maintain a relationship of mutual respect and trust with those we service, and willingly share our experience and expertise.

Our People

We value the unique contribution and talents each individual adds to our Office and community.

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on our working together, we promote a spirit of cooperation and teamwork throughout our organization.

We are committed to the concept of personal and professional development and support quality-of-life endeavours.

Our Standards for Service

The Office of the Auditor General has operationalized its core values and professional standards into the following standards for service. Many of the performance measures presented in this report are designed to help us monitor our ability to meet these standards:

Approaching Our Work in a Fair and Constructive Way

- We audit matters that are of significance and interest to those who rely on our work.
- We are impartial and objective in conducting our audits.
- We judge government accountability information and performance against reasonable expectations.
- We base our assessments on the accountability principles or performance standards used by government where these are judged to be appropriate.
- We attest to the fairness and reliability of accountability information provided publicly by government where that information is available and complete.
- We conduct our audits in a way that enables us to provide positive assessments where warranted, and report the reasons for our reservations where we are unable to provide positive assessments.
- We offer sound, practical recommendations for improving performance.
- We issue our audit reports on a timely basis.

Providing Accurate, Reliable Assessments and Sound Advice

- We conduct our audits in accordance with professional auditing standards, using sound auditing methodologies and techniques.
- We conduct our audits using personnel having the knowledge and competence required for the audit, including a thorough understanding of the type of organization and operations under review.

- We provide reliable, evidence-based assessments and advice, ensuring that our audit criteria or performance standards, findings and conclusions, and advice for improvement are well founded and supported.
- We report all matters of significance to those who rely on our work.
- We subject our audit reports, work and methodologies to rigorous quality assurance processes.

Building Strong Relationships

- We are honest and forthright in all of our dealings with those we audit and those who rely on our work.
- We keep all information obtained in the performance of our work confidential, except as required to perform our duties under the Auditor General Act. (The Freedom of Information and Protection of Privacy Act does not apply to the audit records of the Office, including all audit working papers.)
- We communicate openly throughout an audit with management responsible for the matters under review by:
  - meeting with management at the start of an audit to establish a communication plan for the assignment;
  - discussing the terms of the audit assignment with management at the start of an audit, including the objective and scope of our work;
  - discussing our audit plan with management including the audit criteria or performance standards to be used; and
  - discussing with management our findings, analysis, conclusions and draft report.
- We provide management with an opportunity to publish in our report a response to our audit where we have assessed government performance directly.
- We organize our work to allow government staff to participate in our audits with a minimum of disruption to their regular duties.
- We welcome and respond to any comments, suggestions or queries from legislators, the public or government managers.

Code of Professional Conduct

Employees of the Office of the Auditor General conduct themselves as professionals and take pride in their work.

We encourage a positive and professional attitude, including a commitment to the Office's values and service standards.

As Public Service Act appointments, employees of the Office are required to comply with the Standards of Conduct for Public Service Employees.

Additionally, most of our employees belong to professional associations, and are subject to codes of conduct of those professions.

Our Mandate and Reporting Relationships

The Auditor General is an Officer of the Legislature, appointed for a six-year term by the Legislative Assembly. He or she is non-partisan, objective and independent of the government of the day, reporting impartial assessments of government accountability and performance to the Legislature as a whole. By doing so, the Auditor General contributes to improved accountability and performance in the British Columbia public service.

Under the authority of the Auditor General Act, our Office is responsible for auditing all parts of government, including its ministries, Crown corporations and other organizations. Our reports provide assurance to the Legislature and the public on matters relating to past events or practices within the public sector, as well as offer suggestions for improving future public sector performance. In exercising this responsibility, we stay attentive to the needs, expectations and priorities of the Legislature and the public. At the same time, we remain responsive to and aware of the needs and expectations of public sector managers so that we can provide sound and practical recommendations for improvement.

Our clients and key stakeholders

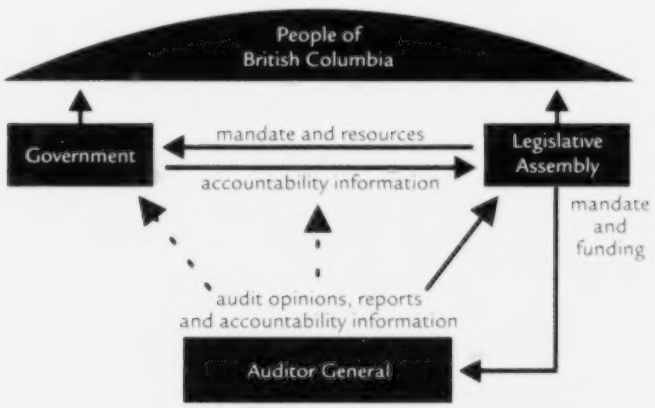
Our clients are the Members of the Legislative Assembly (MLAs) and, through them, the citizens of British Columbia. (Exhibit 1).

All of our reports are tabled in the Legislature and are then referred to the Select Standing Committee on Public Accounts (PAC), an all-party committee of the Legislature. The PAC reviews our reports and recommends, to the Legislative Assembly, acceptance or rejection of our findings and recommendations.

Our main stakeholders are the public sector organizations we audit (included in "Government" in Exhibit 1). They also benefit from our services. Other key stakeholders include the Canadian Institute of Chartered Accountants, which sets the auditing standards we must follow, and the private sector auditing firms that conduct the majority of the audits of the Crown corporations and agencies which are included in the government reporting entity. We rely heavily on their work for our opinion on the Summary Financial Statements of government.

Exhibit 1

Mandate and reporting relationships in the Office of the Auditor General



Changes under the new Auditor General Act

A new Auditor General Act was brought into force on April 4, 2003. The Act updated the previous Auditor General Act that had directed the work of the Office since its inception in 1977.

The new Act reflects developments in government accountability and in the role of legislative auditors over the past 25 years. The Auditor General has been confirmed as the auditor of the Summary Financial Statements of government (a responsibility fulfilled by the Office for many years). Starting in 2004/05, the summary statements will encompass the operations of the whole of the government reporting entity, including central government, school districts, universities, colleges and institutes, and health care organizations—all of which receive a substantial portion of their funding from the Province. The Auditor General audits central government and 25 of the approximately 150 other organizations included in the reporting entity. The other organizations in the reporting entity are audited by private sector auditors.

The Auditor General Act calls for the Auditor General to report, at least annually, to the Legislative Assembly on the work of the Office, including any assessments he has done concerning whether government or government organizations are operating economically, efficiently and effectively. Those reports, however, must refrain from commenting on the merits of government policies or program objectives.

A significant expansion of the Auditor General's authority permits him to "follow the dollar" into hands of recipients, and to audit compliance with the terms and conditions under which public funding was provided to an individual or organization.

Also significant about the new Act is that it enhances the accountability of the Auditor General to the Legislative Assembly by calling for greater involvement by committees of the Assembly in reviewing the Auditor General's annual work plan and funding proposal. The Act also sets out clear expectations concerning performance reporting by the Auditor General to the Legislative Assembly.

Our three main lines of business

1. Attesting to the reliability of government financial statements

As the auditor of all of government, we are required to provide an opinion as to whether the Summary Financial Statements of government are presented fairly, in accordance with Canadian generally accepted accounting principles. The Summary Financial Statements report on the province's financial results against the financial plan, and must therefore be comprehensive, accurate, timely and independently verified to maintain the trust and confidence of all readers.

To carry out this work and meet professional standards, we need to keep in touch with significant issues, maintain our knowledge of government and identify key risk areas. We do this by conducting some audits of individual government organizations directly and, in other cases, by overseeing and relying on the work of private sector auditors.

In 2003, we produced the first financial statement audit coverage plan. This plan outlines the direct audit and oversight work we need to do to fulfill our responsibility to report on the Summary Financial Statements of government and meet professional standards. It is designed to ensure we have sufficient knowledge and understanding of control environments, business practices and accounting issues in the range of organizations that are included in the Summary Financial Statements. The plan states that, in 2004/05, we will directly audit 25 government organizations, and private sector auditors will audit the remaining 130. Of those 130, we intend to increase our level of involvement in the audits of 25 of them. This will involve reviewing audit plans and files prepared by other auditors, determining how issues have been resolved and participating in communications with the audit committee.

2. Assessing the quality of government performance reports

Government and legislators in British Columbia are committed to public performance reporting. The Budget Transparency and Accountability Act—one of the few of its kind in Canada—requires government and government organizations to set out three-year plans and to report publicly on their performance, with a focus on results. However, legislation alone does not guarantee meaningful public reporting of intended and actual results. Also required will be the support and commitment of public servants, and the establishment of a results-oriented management culture within government.

We strongly support the move to more comprehensive reporting of performance, and we encourage government to build on its experience to make good public performance reporting a reality. We are doing this through our assessments of government's annual reports and by working with the audit community and others to develop performance reporting standards and an audit methodology.

3. Examining how government manages its key risks

Another aspect of our work is providing legislators with assessments of how well government is managing its key risks in delivering programs, services and projects (examinations often referred to as "performance" or "value-for-money" audits).

The operations of the Government of British Columbia are very large in size and scope relative to our audit resources. We try therefore to focus on the issues of greatest significance, interest and value to legislators and the people of the province. In limited circumstances, we also respond to requests from legislators or committees to conduct investigations or issue special reports.

We also periodically perform follow-up reviews to provide the Legislative Assembly and the public with an update on the progress made by management in implementing our recommendations and those made by the Select Standing Committee on Public Accounts. Our recommendations are designed to improve public sector performance and are an important value-added component of our work. In our recent interviews with legislators, 94% of them agreed that our follow-up reviews provide useful information.

Our structure

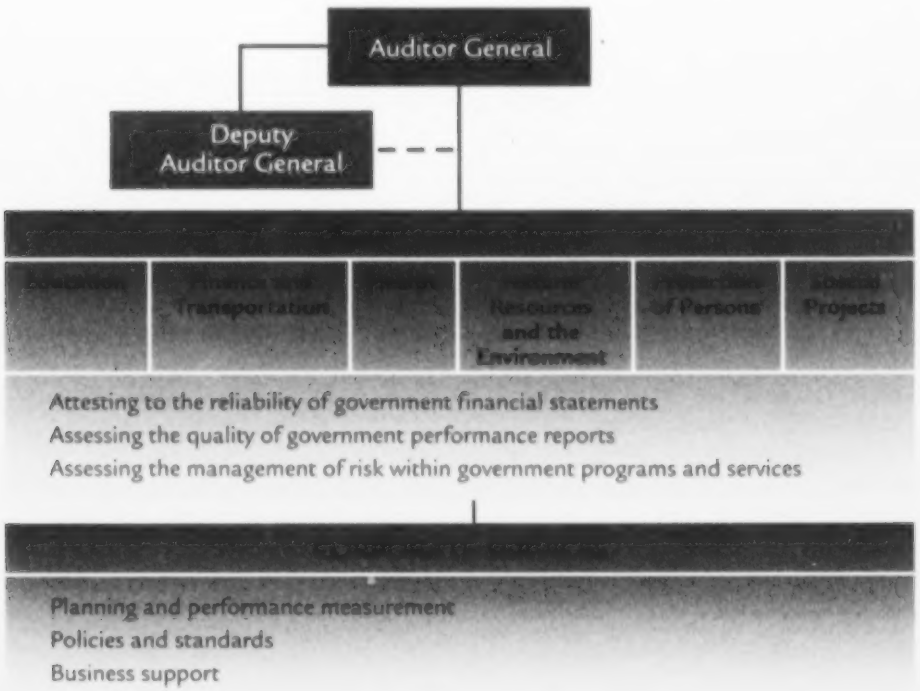
The Auditor General is supported by over 80 staff. They plan, conduct, oversee and support audits, and prepare reports for tabling by the Auditor General in the Legislative Assembly.

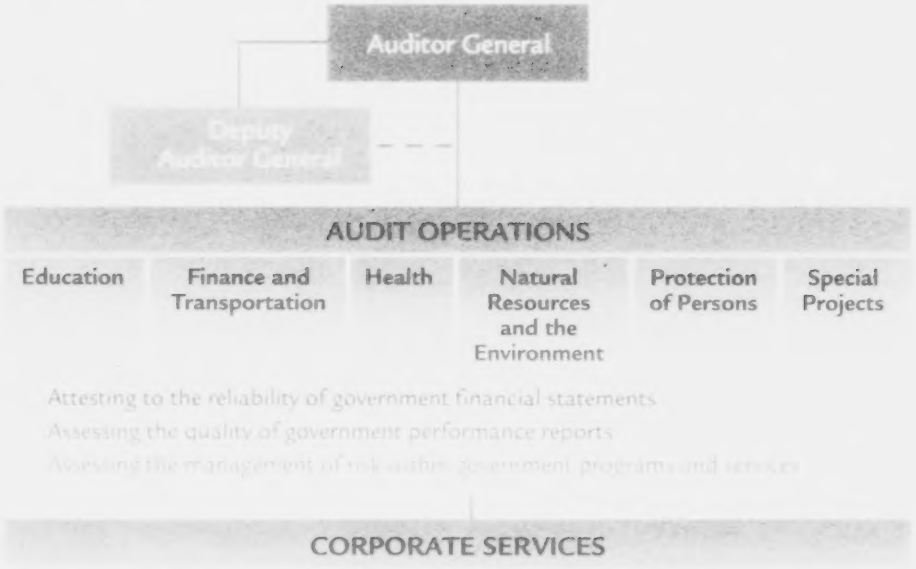
The majority of the Office's staff are highly skilled university graduates with professional qualifications in accounting and auditing, business, public administration, information technology, social and environmental sciences, health care and law.

In 2003/04, our operations were organized into five operating sectors and a Corporate Services sector that ensures the Office has strong administrative and technical support (Exhibit 2). Each

Exhibit 2

Operations structure in the Office of the Auditor General of British Columbia


Auditor General
Deputy Auditor General
Transportation
Resources and the Environment
Projects
Attesting to the reliability of government financial statements
Assessing the quality of government performance reports
Assessing the management of risk within government programs and services
Planning and performance measurement
Policies and standards
Business support


Auditor General
Deputy Auditor General
AUDIT OPERATIONS
Education
Finance and Transportation
Health
Natural Resources and the Environment
Protection of Persons
Special Projects
Attesting to the reliability of government financial statements
Assessing the quality of government performance reports
Assessing the management of risk within government programs and services
CORPORATE SERVICES
Planning and performance measurement
Policies and standards
Business support

operating sector focuses on one or more key areas of government operations. In addition, Special Projects is responsible for taking on audits or reviews that were not anticipated during our planning for the year.

We are in the process of changing our structure (see sidebar).

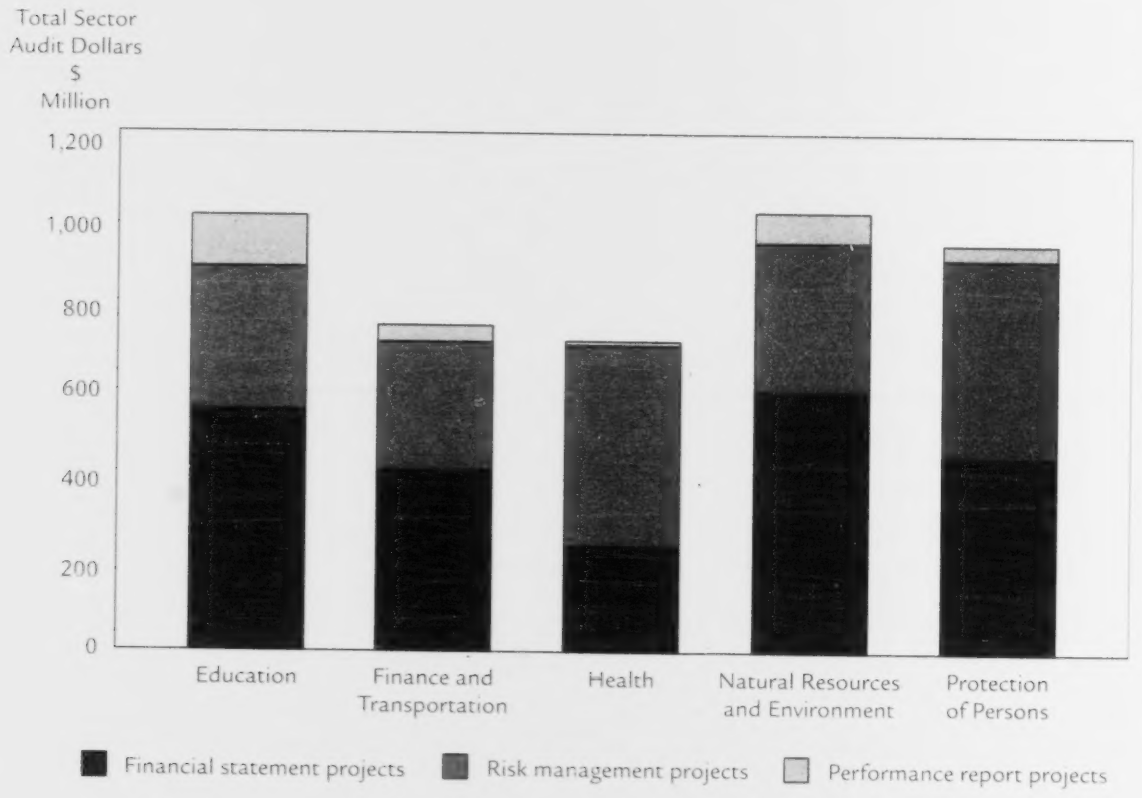
Exhibit 3 shows the relative allocation of audit resources between our audit sectors, and the distribution of resources among lines of business within each sector. The base allocation to each of the five operational sectors is approximately equal. Incremental funding is added to this for targeted Office-wide activities. For instance, the Protection of Persons sector also has responsibility for Information Technology audits and the Education sector has responsibility for leading our work on assessing the quality of government performance reports. Further allocations within and between individual sectors occur as priorities and risks are assessed in each area.

Changes to Our Structure

We are changing our structure in 2004 to manage the reduction in our funding and senior staff. We will reduce the number of senior leaders in our Office structure by two. We will do this by changing the way we handle special projects and reducing the number of operating sectors from five to four. The responsibilities and resources currently dedicated to the Protection of Persons sector will be allocated across the four remaining sectors. This sector was responsible for auditing social service and law enforcement organizations such as the Ministries of Children and Family Development; Human Resources; Attorney General; Solicitor General and Public Safety; and at least 12 other government organizations.

Exhibit 3

Distribution of 2003/04 audit dollars by operating sector and line of business
(unaudited)



Source: Compiled by Office of the Auditor General of British Columbia

Our funding, planning and reporting cycle

Our funding, planning and reporting cycle is shown in Exhibit 4.

Each year, as a core part of their business, our audit sector teams obtain and process a large amount of information about international, national and local developments and changes in public sector practices. This scan ensures that our work focus adequately reflects shifts in public sector strategies and operations, including changes in the direction of government policy. Our business planning process also provides us with a framework against which we can progressively monitor and measure the achievement of our goals and objectives.

The result of this exercise is confirmation of, or amendment to, our three-year corporate goals, objectives and strategic priorities. Two streams of information flow from this process:

- the development of a revised three-year work plan for each sector; and
- the identification of organizational issues warranting action to achieve improvement.

This information in turn leads to a work program for the coming years.

In November of each year, we submit our financial statement audit coverage plan and our funding proposal to the Legislative Assembly. It refers these documents to, respectively, the Select Standing Committee on Public Accounts and the Select Standing Committee on Finance and Government Services. The audit coverage plan outlines a three-year plan for the appointment of auditors for government organizations and trust funds.[2] The funding proposal contains our proposed work program and related costs.[3]

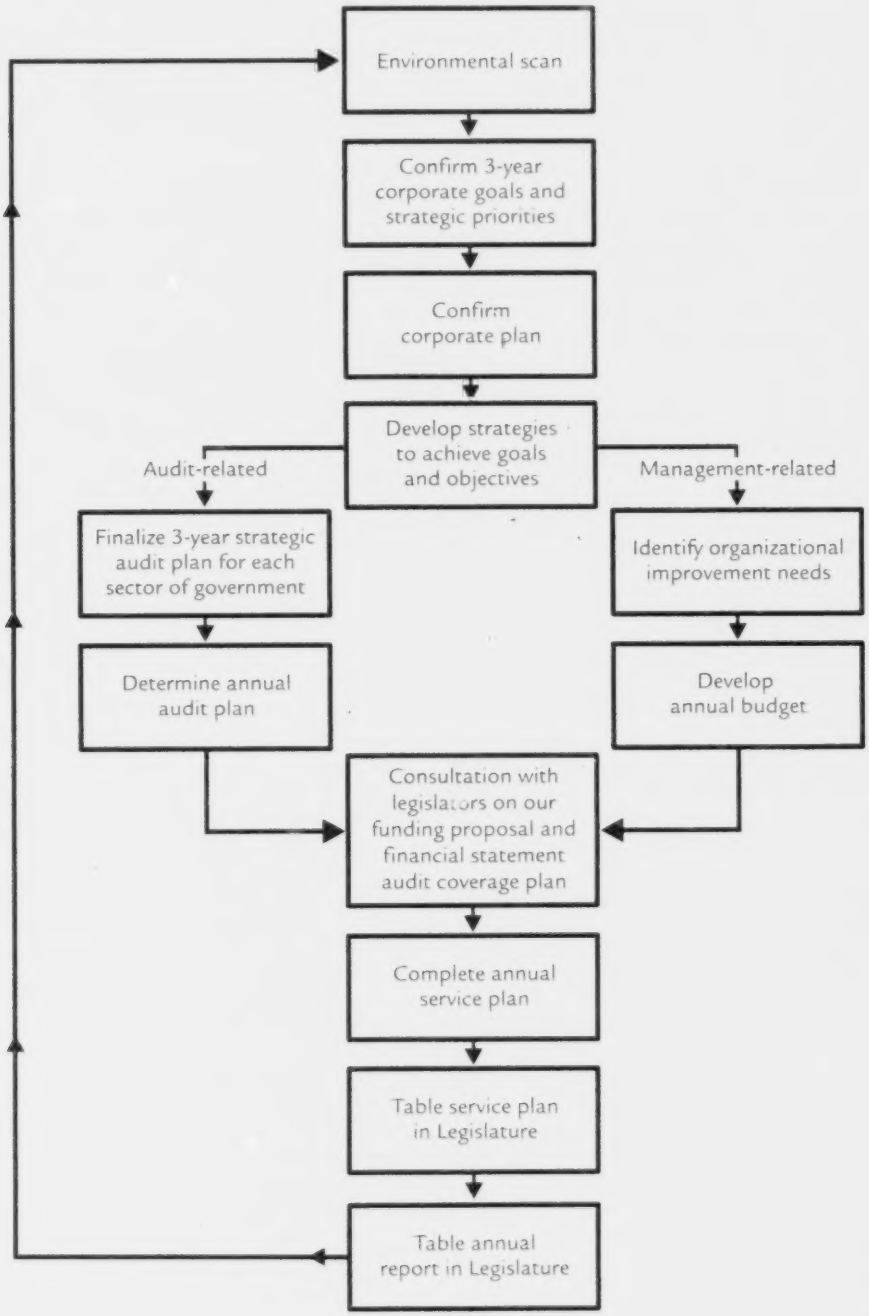
Our service plan incorporates the financial statement audit coverage plan and the Finance and Government Services Committee's funding recommendations; confirms our strategic direction and priorities; and outlines the work program for the next three years. Our annual report (this document) contains information on our achievements in relation to our 2003/04–2005/06 Service Plan.

[2] See our Financial Statement Audit Coverage Plan at www.bcauditor.com.

[3] See our Strategic Direction and Funding Proposal (December 2003) at www.bcauditor.com.

Exhibit 4

Auditor General Performance Reporting Framework


Environmental scan
Confirm 3-year corporate goals and strategic priorities
Confirm corporate plan
Develop strategies to achieve goals and objectives
Audit-related
Management-related
Finalize 3-year strategic audit plan for each sector of government
Identify organizational improvement needs
Determine annual audit plan
Develop annual budget
Consultation with legislators on our funding proposal and financial statement audit coverage plan
Complete annual service plan
Table service plan in Legislature
Table annual report in Legislature

Setting our strategic direction

This annual report describes our performance in relation to the direction, measures and targets we identified in our 2003/04 Service Plan. Exhibit 5 outlines the linkages between our goals, objectives, mission and vision. Our vision is to make a difference for the people of British Columbia by helping to support accountable and well-performing government. We work to achieve this through our mission: providing independent assessment and advice that enhance government accountability and performance.

Both of our goals flow directly from our mission and mandate. Goal 1 is our ongoing and long-term goal: to ensure legislators and the public receive the best information possible for assessing the performance of government. To help us achieve this goal, we have identified three objectives:

- The financial statements of government fairly present financial performance.
- The annual reports of government fairly present organizational performance.
- Legislators are fully informed of the management of key risks associated with government programs and services.

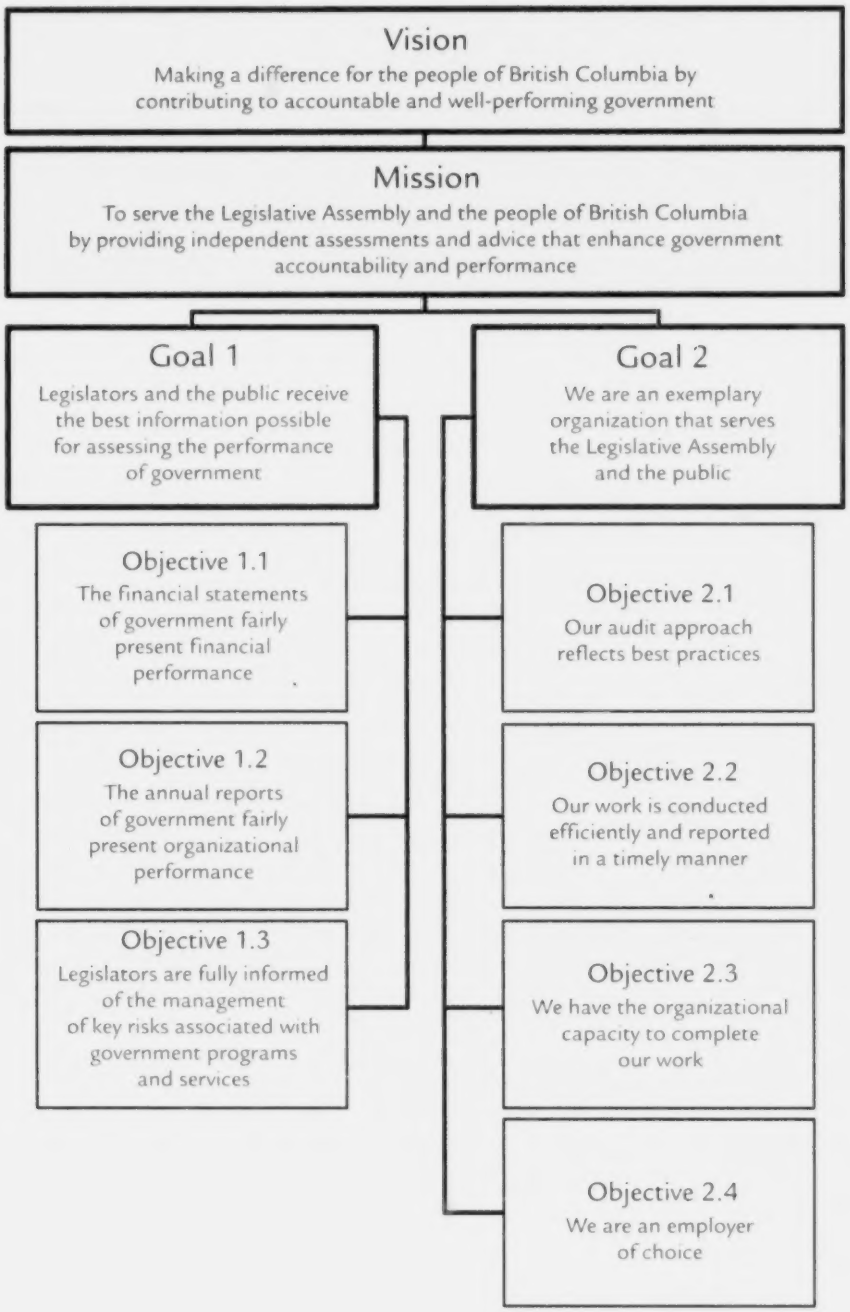
Goal 2—to be an exemplary organization—is something that we strive for everyday. For us, "exemplary" means meeting or exceeding the Office values as well as the expectations we apply to other organizations during our audits—that is, we "walk the talk." We have four objectives to help us achieve this goal:

- Our audit approach reflects best practices.
- Our work is conducted efficiently and reported in a timely manner.
- We have the organizational capacity to complete our work.
- We are an employer of choice.

Our measures are linked directly to our objectives and will also help us monitor the effectiveness of our risk management strategies and our ability to live up to our values and service standards.

Exhibit 5

The Office performance reporting framework


Vision
Making a difference for the people of British Columbia by contributing to accountable and well-performing government
Mission
To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance
Goal 1
Legislators and the public receive the best information possible for assessing the performance of government
Goal 2
We are an exemplary organization that serves the Legislative Assembly and the public
Objective 1.1
The financial statements of government fairly present financial performance
Objective 1.2
The annual reports of government fairly present organizational performance
Objective 1.3
Legislators are fully informed of the management of key risks associated with government programs and services
Objective 2.1
Our audit approach reflects best practices
Objective 2.2
Our work is conducted efficiently and reported in a timely manner
Objective 2.3
We have the organizational capacity to complete our work
Objective 2.4
We are an employer of choice

Changes from our 2003/04 Service Plan

Ideally, the results presented in this annual report should relate directly back to what we outlined in our 2003/04 Service Plan so that the reader can see what we achieved compared to what we planned. However, we also believe that the report should reflect our current thinking and strategic direction. Consequently, readers may notice a few differences between this report and our 2003/04–2005/06 Service Plan. Although at the highest level, our mission, goals and lines of business have not changed, some of the measures have.

These changes in the performance measures occurred primarily as a result of work we undertook in 2003 to involve all staff in the development of our performance measures. Other changes were a result of our efforts with other Canadian legislative auditors to agree to a set of measures we can all use to measure our performance. Agreeing to a common set of measures will allow us, in time, to learn from comparing our performance to others.

All of these changes to our performance measures were signaled in our 2004/05–2006/07 Service Plan and are described in more detail in Appendix A. Additional minor changes in our measures are to be expected as we learn how best to measure our performance and as we adapt our strategic priorities in response to the dynamic environment in which we operate.

Key risks

We have identified four key risks that we need to manage effectively if we are to achieve our goals and objectives:

Independence:
We cannot be successful if we lose, or are perceived to lose, our independence.

Relevance:
We cannot be successful if we do not adequately understand or respond to the information needs of our stakeholders.

Credibility:
We cannot be successful if we provide inappropriate or incorrect assurance and advice.

Capacity:
We cannot be successful if we do not have the required resources and competencies to carry out our mission.

Our 2004/05–06/07 Service Plan contains a detailed description of the key risks we need to manage effectively if we are to achieve our goals and objectives.[4] Discussion of our risk strategies and their results is integrated throughout this report. However, we have also provided a detailed summary in Appendix B.

Self-assessment of our annual report

As we did last year, we assessed the quality of this annual report, using the same methodology we plan to use to assess government's 2003/04 annual reports. This is the third year. We've done a self-assessment. Each year, we review our assessment and make changes to improve for the next year.

A summary of our self-assessment is provided in Appendix C. The assessment shows an improvement from the previous year. We have fundamentally incorporated four of the seven reporting principles into our report and are in the proces of incorporating the remaining three. It is our intention to continue to have these assessments conducted and reported annually, using an independent third party for the first time for the 2005/06 annual report.

How the remainder of this report is organized

We have organized the remainder of this report by goal. Under each goal, we describe our objectives and the measures we have chosen to assess our progress. We start each of these sections by describing the activities and strategies we undertook to achieve our objective. We then present the performance measure result, describe its importance and explain the results we achieved. Where targets were provided in the 2003/04–2005/06 Service Plan, we've included them. Where the measure is new and no target has been set, we have said so and, in most cases, provided the target for next year. Each of these sections ends with a "looking ahead" discussion of the strategies we intend to employ over the next one to three years.

We have also included trend information wherever possible (many of our measures are new, so no trend or comparative information is available for them). We intend to report both trends and benchmarks in the future when it is possible and meaningful to do so.

[4] 2004/05-06/07 Service Plan, pages 16-18.

Goal 1

Legislators and the public receive the best information possible for assessing the performance of government

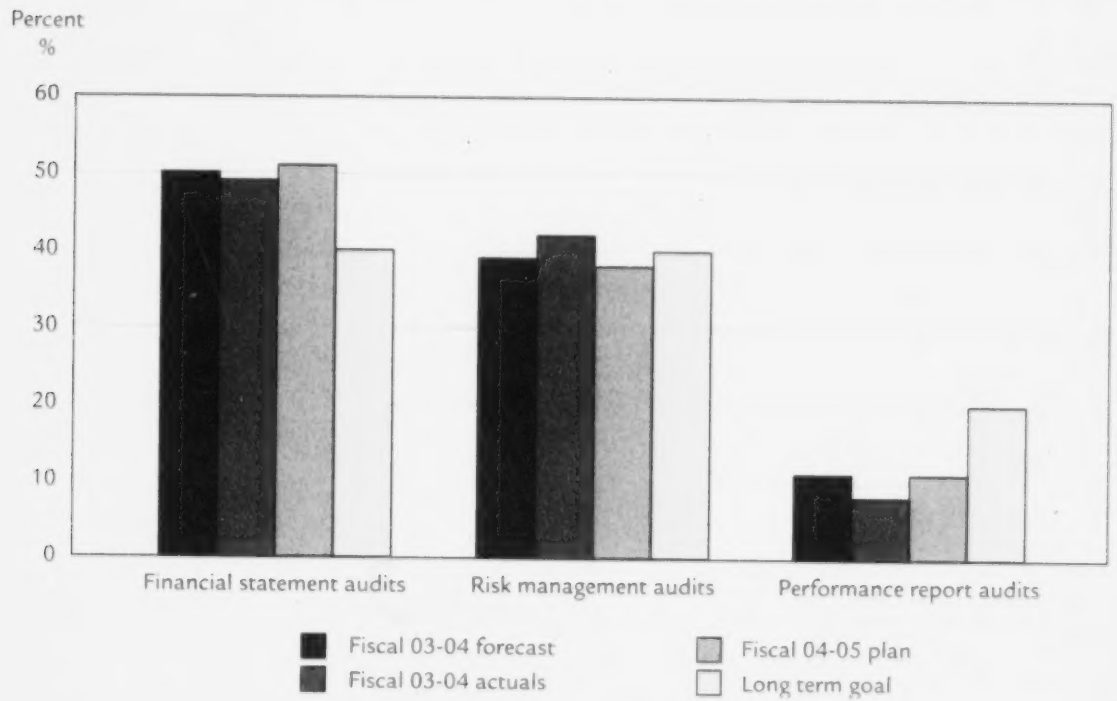
We work towards achieving this goal through our three main lines of business: the audit of government's financial statements, assessments of government's annual reports, and the examination of significant risks associated with the management and delivery of government programs and services.

Resources dedicated to achieving Goal 1

In 2003/04, financial statement audit work used more of our resources than planned (see Exhibit 6). The planned allocations assumed we would no longer audit the financial statements of a

Exhibit 6

Planned and actual distribution of audit resources by line of business and fiscal year



Source: Compiled by Office of the Auditor General of British Columbia

number of entities. However, after our plans were prepared, these entities asked our Office to continue as their financial statement auditor and we agreed to do that. As additional resources were required for financial statement audits, our capacity for risk management projects decreased.

Providing assessments of government's annual reports is a relatively new line of business for our Office. We believe it will expand as government organizations improve the quality of their performance reports and as legislators and the public increasingly use the reports and look for assurance on the reliability of information included in these reports. In the longer term, the proportion of resources allocated to assessing annual reports is expected to gradually rise to 20%, with the remaining 80% of resources split evenly between financial statement and risk audits.

Objective 1.1–The financial statements of government fairly present financial performance

What we did in 2003/04 to achieve our objective

To achieve this objective in 2003/04, we employed a number of different strategies. As we do every year, we assessed the reliability and fairness of the government's Summary Financial Statements—the Public Accounts. We also assessed directly, or through using the services of private sector auditing firms, the reliability and fairness of the financial statements of 38 key public sector organizations or funds (see Exhibit 7).

We completed the majority of the financial statement audits we planned to do. During the fiscal year, however, a few audits were dropped and others were added. We had planned to audit the new Provincial Community Living Authority, for example, but it was not created. Although we ended up doing the same number of audits, some of the ones we picked up were larger and more complex than the ones we dropped.

In addition to issuing our audit opinions, we completed two key reports. The first, *Adopting Best Practices in Government Financial Statements* (November 2003), was intended to inform legislators and the public about government's progress in adopting Canadian generally accepted accounting principles (GAAP) in both accounting and reporting. The second report, Monitoring

Exhibit 7

Overview of financial statement audit coverage for 2003/04

Sector	Total Entities in Sector as of March 31, 2003	Audits Planned		Audits Completed	
		Direct	Agent	Direct	Agent
Education	School districts: 60 Colleges and institutes: 21 Universities: 5 Ministries: 2 Crown corporations: 1	School districts: 0 Colleges and institutes: 0 Universities: 1 Crown corporations: 1	School districts: 0 Colleges and institutes: 1 Universities: 4 Crown corporations: 0	School districts: 0 Colleges and institutes: 0 Universities: 1 Crown corporations: 1	School districts: 0 Colleges and institutes: 1 Universities: 4 Crown corporations: 0
Finance and Transportation	The Public Accounts[a] Crown corporations: 8 Others: 4 Ministries: 4	The Public Accounts Crown corporations: 2 Others: 4	0	The Public Accounts Crown corporations: 2 Others: 4	0
Health	Health authorities: 6 Hospital Societies: 8 Crown corporations: 2 Ministries: 2	0	Health authorities: 1	0	Health authorities: 1
Natural Resources and the Environment	Crown corporations: 25 Ministries: 6	Crown corporations: 13	Crown corporations: 1	Crown corporations: 14	Crown corporations: 1
Protection of Persons	Crown corporations: 17 Ministries: 6 Others: 2	Crown corporations: 6 Others: 1	Crown corporations: 3	Crown corporations: 6 Others: 0	Crown corporations: 2
Total	179	29	10	29	9

[a]This audit uses staff and resources from all audit sectors and is coordinated through the Finance and Transportation sector.

Source: Compiled by Office of the Auditor General of British Columbia

Government's Finances (December 2003), was our third report of its kind. In it, we urged the government to use an appropriate framework of financial information to better explain the state of its finances. We also encouraged government to make adjustments to its explanation and analysis of its finances (making them simpler and more complete) so that legislators and the public can more easily understand the state of government's finances. (See Appendix D for a more detailed description of these reports and the others we produced in 2003/04.)

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
1. Percentage of government organizations, included in the government reporting entity, following generally accepted accounting principles (GAAP)	98%	New measure	98%	100%

Description

Government managers have a significant incentive to ensure financial performance is fairly presented, as evidenced by unreserved (also known as "clean") financial statement audit opinions. We believe this gives legislators and the public confidence in government's financial representations. Organizations will not receive an unreserved financial statement audit opinion unless they follow GAAP. Therefore, we will measure government's progress by reporting on the percentage of organizations receiving a clean audit opinion.

Our Office does not prepare the financial statements. This responsibility rests with the management of each organization. Our responsibility is to audit those financial statements and provide an opinion on their reliability. Through this work, we play a role in advising government on its reporting decisions. The intent of this measure is to determine whether we are successful in influencing government to adopt appropriate accounting principles that will result in unreserved audit opinions, reflecting compliance with GAAP.

This measure includes all government organizations currently included in the government reporting entity and not just the ones we audit directly. Since this is a new performance measure for our Office, no target was established for 2003/04. Our 2004/05–2006/07 Service Plan established a target of 100% for the next three years.

Explanation of results

The result presented above is based on audits completed in 2003/04, which were primarily for 2002/03 financial statements. Audits related to the 2003/04 statements were still underway at the time of writing.

Of the 54 financial statements released during the 2003/04 fiscal year for government organizations included in the government reporting entity, 53 (98%) were prepared in compliance with GAAP. The major exception was the Summary Financial Statements of the Province, where the audit opinion was qualified because of the incompleteness of the government reporting entity. We anticipate this deficiency to be corrected in the 2004/05 fiscal year and beyond as the government begins to comply fully with GAAP.

The biggest challenge we foresee in achieving the 100% target in the future is the school districts. The 2004/05 fiscal year will be the first year they will be required to prepare their financial statements according to GAAP. We will continue to advise them as they do.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
2. Percentage of audited organizations following best practices in financial statement reporting	New measure	New measure	Not yet measured	Establish baseline

Description

Following best practices in reporting will lead to more meaningful reporting and greater public confidence in the information being presented. We define "best practices" to mean reporting that goes beyond the minimum requirements of GAAP, including selecting the best accounting approach when there are

alternatives. Again, it is up to each organization to choose to follow best practices, but we will continue to advise them on what this means and measure their progress over time.

This is a new performance measure for our Office, so no target was established for 2003/04. We have not established a target for 2005 yet because we are still in the process of developing the methodology. We will establish a baseline in 2004/05 and report this result, along with a future target, in next year's annual report.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target[a]
3. Legislators believe in the value of the Auditor General's regular examination of government's financial statements	New measure	80%	100%	100%

[a]The target in the 2003/04-05/06 Service Plan was 85%. However, given that we have already exceeded this target, we have adjusted it to reflect our objective to continuously improve our performance.

Description

We believe that our examination of government's financial statements gives legislators and the public confidence in government's financial reporting. Consequently, we have chosen to measure whether legislators believe our financial statement audits are important and contribute to the public's confidence in government's financial reporting. We intend to survey legislators annually to monitor their views.

Explanation of Results

We were pleased to find that 100% of those we surveyed in 2004 believed that our financial statement audit work is important and contributes to the public's confidence in government's finances.[6] Although the result is positive, we know we need to maintain this level of approval by continuing to improve the quality of our work and by informing legislators of our work.

[5]We surveyed all Members of the Legislative Assembly (MLAs) who had sat on the Public Accounts Committee since the last election (2001). There were 19 in total, and we were able to meet with 18 of them. We selected this group because they are the most familiar with our work. However, we plan to expand our population in future years to include other MLAs. The structured interviews were conducted by the Auditor General with the assistance of one of his staff. The percentage reported represents the percentage of legislators who responded four or higher on a five-point scale to this question. See our "Methodology Report" for more details on this survey.

Looking ahead

During fiscal year 2004/05, the government's Summary Financial Statements will become much more complex to prepare and audit because they will include the complete financial results of almost 100 additional organizations, including school districts, colleges and institutes, universities and health care organizations. We therefore plan to focus on three priorities over the next three years.

- First, we will examine this new, more complex set of government Summary Financial Statements and complete our examination within 90 days after the year-end, to meet government's timetable.
- Second, we will encourage the creation of a financial statement audit system throughout the provincial public sector that recognizes and meets the information needs of legislators. This system will include working with many more organizations, each with its own board of directors and management teams, and most with private sector auditors.
- Third, we will continue to provide timely advice to government on the many accounting and accountability issues that arise.

Objective 1.2—The annual reports of government fairly present organizational performance

What we did in 2003/04 to achieve our objective

Government is working to advance the quality of its reporting on overall performance, but considerable improvement is still needed. In the future, we think an independent third party will be expected to provide assurance for the whole performance report and not just the financial aspects. When this happens, legislators, interested stakeholders and the public will be able to assess government's performance with more confidence. However, we do not think this will happen until the quality of reporting evolves to a good standard, the use of the reports increases, and an audit methodology is developed through experience.

We undertook a number of strategies in 2003/04 to lead towards this long-term objective. Our primary strategy is to do what we can to influence the continued improvement in

government's annual reports. To this end, we completed our third assessment of the quality of government's annual reports (*Building Better Reports: Our Review of the 2002/03 Annual Service Plan Reports of Government*). We assessed 20 ministries, 14 Crown corporations and government as a whole. For the first time, we also published the individual assessments of each organization.

BC's Reporting Principles

1 Explain the public purpose served
2 Link goals and results
3 Focus on the few, critical aspects of performance
4 Relate results to risk and capacity
5 Link resources, strategies and results
6 Provide comparative information
7 Present credible information, fairly interpreted
8 Disclose the basis for key reporting judgements

For the second year, we audited the annual performance report of the Public Guardian and Trustee of British Columbia. This audit was required under the Public Guardian and Trustee Act, still the only legislation in British Columbia specifically requiring assurance for performance reporting. Our audit report was included in the Public Guardian and Trustee's 2002/03 Annual Report, which can be found at www.trustee.bc.ca.

We also completed for the first time a similar assessment of the Workers' Compensation Board (WCB) 2003 Annual Report. The WCB was the first organization to accept our invitation to assess the quality of its report—an assessment it then included in the annual report.[6] The WCB's report was also the first annual report in British Columbia to have fundamentally incorporated all eight of the performance reporting principles.

In addition to these assessments, we engaged in other strategies in support of Objective 1.2. For example, in 2003, government, legislators and our Office jointly endorsed the "BC Reporting Principles." These are the elements that a comprehensive report on performance should contain. Formalizing agreement around the principles is a significant achievement and, along with the Budget Transparency and Accountability Act, puts British Columbia at the forefront of public sector reporting practices across the country. We continued to work with government to explore ways to provide assurance on performance information. To this end, we completed a number of pilot studies and, together with government officials, will be providing a status report to the Public Accounts Committee.

We are also participating in the development of national standards for performance reporting. The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants—the standard-setter for government reporting—is in the process of developing a "statement of recommended practice" and is using, as a starting point, the CCAF's recommended national reporting principles (from which the BC Reporting Principles are derived).

[6] Workers' Compensation Board. 2003 Annual Report. http://www.worksafebc.com/publications/reports/annual_reports/2003_annual_report/message_president.asp

While less authoritative than an accounting standard, this practice statement will encourage best practices in performance reporting. The project, considered significant enough for "fast tracking," is expected to be completed within the next 18–24 months.

Key Measure*	2003 Actual	2004 Target	2004 Actual**	2005 Target
4. Percentage of annual reports that have reached "fundamentals in place" for:				
■ 1 reporting principle	18%	No target	14%	No target
■ 2-4 reporting principles	5%		6%	
■ 5-8 reporting principles	0%		6%	

* To reflect all of the annual reports we assessed in 2002/03 and 2003/04, the numbers in this table have been restated from the 2004/05-2006/07 Service Plan to include our assessments of the Public Guardian and Trustee and Workers' Compensation Board annual reports.

** This result is based on our assessment of the 2002/03 annual reports of government. We will assess the 2003/04 reports once they have been published (June 30, 2004). For details on our assessment, see *Building Better Reports: Our Review of the 2002/03 Annual Service Plan Reports of Government* on our website: www.bcauditor.com.

Description

This indicator will track improvement in government's reporting over time. The matrix tool we use to assess government's annual reports is based on the BC reporting principles and has four stages: Start-up, In Process, Fundamentals in Place and Fully Incorporated.[7] We believe that reaching the "fundamentals in place" stage signifies an annual report has incorporated all of the most important elements of the key reporting principles.

We have not established a target for this indicator as we believe it is premature to do so. Government ministries and other organizations are at an early stage in providing good performance reporting. Before we set a target for improvement, we need to engage in further discussion with the providers and users of performance reports so that we have a better understanding of what progress is reasonable to expect.

[7] For a better understanding of the methodology we use to assess the quality of government's performance reports, see *Building Better Reports: Our Methodology for Assessing the Annual Service Plan Reports of Government* at www.bcauditor.com.

Explanation of Results

The result presented above represents a modest improvement from the previous year, although much improvement is still required before the reports can be said to contain enough appropriate information to give the reader a full understanding of government's performance.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Targets
5. Legislators believe in the value of the Auditor General's efforts in performance management and reporting	New measure	80%	89%	90%[a]
6. Legislators make use of government's performance reports in their deliberations or decision-making	New measure	New measure	76%	90%

[a]The target in the 2003/04-05/06 Service Plan was 85%. However, given that we have already exceeded this target, we have adjusted it to reflect our objective to continuously improve our performance.

Description

Ultimately, the outcome we desire is that legislators and the public have confidence that they are receiving complete and accurate information about government's overall performance. However, the public reporting of results is a new area and standards for disclosure are only just evolving. As well, having appropriate results information to report is contingent upon having a managing for results approach within government. This means, in part, not only being clear about intended results, but also having the necessary measures and supporting information systems. It is this aspect that potentially takes time to achieve. For these reasons, it will take time and considerable effort for all government organizations to comprehensively report on their performance, although progress is being made.

In the meantime, since government organizations are only now starting to report comprehensively on their performance, we will measure whether legislators believe the work we do with

government and standard-setting bodies on the national level is valuable and improves the quality of government's performance reports. We will also measure whether or not legislators make use of government's performance reports.

Explanation of Results

Our survey of legislators found that 89% agreed that the work we do in this area has value and 81% agreed that the work has had a positive impact on the quality of government's performance reports. In addition, 76% said they used government's performance reports and found them to be meaningful. Many of the legislators we interviewed commented that they had noticed some improvements in the quality of the reports over the last few years, while others said there was still lots of room for improvement. We were pleased to hear many positive endorsements of our work and plan to continue both encouraging organizations to improve and informing legislators on how government's performance reports can aid them in their work.

Looking ahead

Over the long term, we intend to shift our attention away from the general review of performance reporting to an audit of the reliability of the information. However, we believe this type of scrutiny won't be useful until the quality of government's reports improves. We do believe that these reports will continue to improve as organizations become more familiar with the BC Reporting Principles and as they further develop their capacity both to manage for results and to produce quality accountability reports. We know that good performance reporting takes time and effort, so we intend to be as encouraging as possible while pushing for steady improvement.

For 2004/05, we plan to:

- complete our fourth assessment of the quality of government's annual reports;
- provide assurance on a fee for service basis on the annual reports of public sector organizations that are willing to lead the way by engaging our Office to provide assurance on their annual report;

- provide assurance on British Columbia's health indicator report;
- continue to work with government to develop an assurance program for British Columbia and report our progress to the Public Accounts Committee;
- work with the CCAF and the Canadian Institute of Chartered Accountants to develop national performance reporting principles, and with our colleagues in the legislative audit community to develop a methodology for providing assurance on performance information;
- raise awareness among legislators and public sector organizations of the value of good performance reporting; and
- further develop our capacity, and the capacity of other assurance providers, to assess performance reports.

Objective 1.3—Legislators are fully informed of the management of key risks associated with government programs and services

What we did in 2003/04 to achieve our objective

For legislators to be fully informed about the management of key risks associated with government programs, our audit topics must be relevant and our reports informative and timely. Our primary strategies to achieve this objective are related to our examinations of how government manages its key programs and services.

Over the past year, we continued to focus on issues in the health and education sectors, the outsourcing of service delivery, large capital projects and complex mission-critical information systems. We published three reports:

- *A Review of Performance Agreements Between the Ministry of Health Services and the Health Authorities*
- *Alternative Payments to Physicians: A Program in Need of Change*
- *Audit of the Government's Review of Eligibility for Disability Assistance*

Several other projects are well underway and the reports are expected to be released in the next few months. We also followed up on four of our previous audits by reporting on management's progress in implementing our recommendations. Appendix D provides a summary of the reports we published in 2003/04.

During the past year, we also responded to a request to review forgiveness of debt related to fish farm operations. The results of this work are reported in Appendix E.

Key Measure	2003 Actual	2004 Targets	2004 Actual	2005 Targets[a]
7. Legislators believe topics chosen by the Auditor General are relevant	Not yet measured	80%	100%	100%
8. Legislators believe in the value of our examinations of how risks are being managed by government	Not yet measured	80%	89%	95%

[a]The target in the 2003/04-05/06 Service Plan was 85%. However, given that we have already exceeded this target, we have adjusted it to reflect our plan to continuously improve our performance.

Description

Our reports inform legislators about how well government programs and services are being managed. We believe this information helps legislators in their work. Focusing our efforts on relevant topics is critical to our effectiveness. Relevance is confirmed when legislators believe our work meets their needs and addresses their priorities.

Explanation of Results

Our survey of legislators found that 100% of those we spoke with agreed that our topics are relevant. When asked about the value and importance of our work, 89% agreed that our risk management audits are important to them, and 88% agreed that our reports have had a positive impact on government in general. Although this is a very positive response, we know we cannot afford to be complacent. We therefore plan to continue to monitor our environment to ensure the topics we select are relevant and our reports provide value.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
9. Percentage of our recommendations endorsed by the Public Accounts Committee (PAC)	100%	95%	100%	100%
10. Percentage of our recommendations implemented	74%	New measure	58%	75%

Description

The Auditor General's reports are directed at the management of organizations we assess, and are reviewed by the Public Accounts Committee (PAC), an all-party committee of the Legislature. Endorsement of our recommendations by the PAC is a key measure of the Legislature's support of the Office's recommendations.

We also follow up on our audits to determine the stage of implementation of our recommendations. We do this because legislators have asked us to keep them informed of the progress being made in implementing our recommendations, and it allows us to assess whether our reports are having a positive effect. Performance measure 10 is based on recommendations that were included in reports we tabled two years previously (2001/02 reports). It shows the percentage of these recommendations that have been fully or substantially implemented.

Although, when we make them, we hope all of our recommendations will be implemented, our target is less than 100% because—for valid reasons—some recommendations can not be implemented within the two years we allow for this measure. In some cases, for example, a program or circumstances may change so that some recommendations are no longer relevant. In other cases, our recommendations are more complex and require longer than two years to implement.

Explanation of Results

All of the recommendations we provided in our 2003/04 reports were endorsed by PAC.[8]

The result presented for performance measure 10 is based on the five reports we published in 2001/02 that contained recommendations. There were 87 recommendations in total and only 50 (58%) were fully or substantially implemented at the time of our last follow-up review. There are various reasons why organizations have not implemented our recommendations. In many cases, they agree with what we said, but subsequent resource constraints prevented them from implementing the recommendations. With our report on Translink, all of the 18 recommendations not yet implemented relate to promoting good governance, accountability and decision-making.[9] Following the issuance of our report in August 2001, a governance task force was established to review our recommendations and determine how they should be dealt with. The task force has not yet delivered its recommendations to the TransLink and Greater Vancouver Regional District boards.

Looking ahead

For the next one to three years we intend to continue to focus our examinations on the health and education sectors, outsourcing of service delivery, large capital projects and complex, mission-critical information systems. As always, we will attempt to maintain the relevance of our topics by balancing our work between immediate, high-interest projects (such as the 2010 Winter Olympic Games) and longer-term impact topics (such as the Alternative Payments Program). We will continue to strive for recommendations that are sound and practical and follow up on management's progress in implementing them.

[8] We produced three risk management reports in 2003/04 but, as of May 2004, only two of them had been reviewed by the PAC. Both reports were endorsed by the PAC, only one of which had recommendations.

[9] See our report, *Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure*: Report 2, August 2001, on our webiste at www.bcauditor.com

Goal 2

We are an exemplary organization that serves the Legislative Assembly and the public

Objective 2.1—Our audit approach reflects best practices

What we did in 2003/04 to achieve our objective

We strive to meet the highest standards of service, professionalism, integrity and independence. (One of our value statements)

Key to maintaining the Office's ongoing credibility is ensuring our audits are conducted with the highest ethical and professional standards. This requires us to stay up to date with developments in public sector accounting and auditing. Maintaining our involvement with professional organizations also allows us to meet the needs and expectations of our clients by learning how to conduct new business properly and traditional business better.

Canadian Council of Legislative Auditors (CCOLA)

CCOLA is an organization devoted to sharing information and supporting the continued development of auditing methodology, practices and professional development. The council's membership consists of the Auditors General or Provincial Auditors of the Canadian provinces and the federal Auditor General. It also has one associate member, the Auditor General of Bermuda.

We seek to maintain a relationship of mutual respect and trust with those we service, and willingly share our experience and expertise. (One of our value statements.)

Participating in CCOLA provides us with a cost-effective means of improving our effectiveness and performance. Our ability to tap into the shared expertise of legislative auditors across the country provides us with resources and information beyond our own capacity to create.

A number of the Office's staff hold positions in CCOLA interest groups and committees, including the Audit Methodology Study Group, the Health Study Group, the Strategic Issues Study Group, the Performance Reporting and Auditing Group, the Human Resources Network, the Governance Study Group and the Information Technology Committee.

Canadian Institute of Chartered Accountants (CICA)

Accounting and auditing standards are undergoing unprecedented public scrutiny and change. We need to stay on top of these changes if we are to maintain our credibility and serve the financial reporting needs of our clients effectively. The Office maintains an active association with the CICA.

the principal standard-setting body in Canada for accounting standards and assurance practices. Members of the Office's staff have served on various boards and committees, including the Public Sector Accounting Board, the Control and Government Board, the Assurance Standards Board, the task force on performance reporting and the task force on engagement letters.

Internal Professional Practices

In addition to our work with professional associations, we have dedicated staff to monitor our practices, coordinate updates to our methodology and provide staff with the latest developments in accounting and auditing matters. The individual responsible provides advice to staff on current and emerging technical issues and develops policies, standards and practices that ensure the Office provides quality information, assurance and advice in a consistent and efficient manner.

We believe that keeping in touch with emerging issues in our profession, combined with our ongoing quality assurance processes (see sidebar), should give users of our reports comfort that the information presented is of the highest standard.

Quality Assurance

The audits we undertake are carried out in accordance with the assurance standards established by the CICA. These standards have always been rigorous and demanding, but are becoming even more so. They are designed to ensure that our audits are properly planned, staffed, conducted and reported, and that our audit findings are based on well-substantiated evidence. We consider, as well, international assurance standards when planning our audits, particularly when an issue is not addressed specifically in Canadian standards. Where required, we involve professionals with specialist knowledge in the subject area under review.

The credibility of our work rests on adherence to these standards. To ensure our audits meet external assurance standards as well as our own standards for documentation, all audit files are subject to thorough reviews. This ensures that the conclusions and opinions we express in our reports are accurate and supported by sufficient, appropriate evidence.

For our risk audits, we establish advisory committees that typically include knowledgeable people from outside the Office. These committees consider whether:

- critical areas for in-depth examination have been identified;
- a sound methodology and suitable criteria have been selected;
- reported findings fairly present the facts; and
- conclusions are plausible and adequately supported.

The checks and balances that underpin our audit work are important, though sometimes time-consuming. This is particularly so where audit findings are controversial. Government officials, for example, may need considerable time to assess the completeness of our work or to respond to our findings. In some cases, legal counsel may be employed by both government and by our Office. We believe the rigour of our quality assurance processes adds value and credibility to our work.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
11. Legislators believe information in the Office's reports is presented in an objective and unbiased manner	Not yet measured	80%	94%	95%[a]
12. Audited organizations are satisfied with the way we conduct our work	New measure	New measure	61%	70%

[a]The target in the 2003/04-05/06 Service Plan was 85%. However, given that we have already exceeded this target, we have adjusted it to reflect our objective to continuously improve our performance.

Description

The credibility of the Auditor General is of critical importance to our clients and stakeholders. We maintain our credibility by preserving our independence and ensuring all work meets the highest standard. Our standards of service require us to approach our work in a fair and considerate way that ensures our findings and recommendations are sound and relevant. We chose to survey our key clients and stakeholders to monitor their perceptions of our ability to maintain our credibility and meet our professional standards.[11]

Explanation of Results

We were pleased to see that 94% of the legislators we surveyed agreed that our reports were presented in an objective and unbiased manner. We also put this question to the organizations we audited: only 61% agreed that our work was objective and fair. We found this result to be surprising. Undertaking work with an objective state of mind is a professional standard we must meet, and our practices are designed to ensure we do so. We need to explore this result further to find out if the measurement is valid or, if it is a performance issue, we need to take immediate steps to improve.

[10]We surveyed almost all of the organizations for which we completed an audit, review or assessment in 2003/04. Sixty-two percent of the 119 number of people responded to the survey. BC Stats conducted the survey for the Office. For more details, see our Methodology Report at www.bcauditor.com.

[11]As defined by the percentage of respondents who rated our performance as good or very good for two questions in our survey:
1. The auditors exhibited an objective attitude while conducting the audit.
2. The findings of the audit were reported in an objective and fair manner.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
13. Level of compliance with CICA quality control	New measure	New measure	Interpreting new professional standards	Self-assessment completed and new policies and practices developed

Description

Maintaining our credibility requires us to meet the highest standards in auditing. We intend to report on our progress in meeting the emerging standards developed by the Canadian Institute of Chartered Accountants (CICA).

Explanation of Results

This performance measure really hasn't changed from what was in our 2003/04–2005/06 Service Plan. We still intend to be 100% compliant with CICA standards. What is changing are the standards themselves and our methodology for measuring our success in meeting them. Previously, we measured our success, in part, through the periodic inspections carried out by the Institute of Chartered Accountants of British Columbia (ICABC). However, these inspections were done only every three to four years, and no such inspection was done in 2003/04. Instead, in the year, we began to familiarize ourselves with the emerging standards and interpret their meaning (see further discussion under the "Looking ahead" section that follows).

Looking ahead

Recent North American business failures have shaken public confidence in financial reporting and auditing. To restore that confidence, the auditing profession is moving to strengthen the rules that guide the profession. One example of the strengthening of rules is the establishment of a framework on quality control policies and procedures, collectively known as the system of quality control. The new framework will constitute new generally accepted standards of practice and will be a prerequisite for all offices performing audit services.

To ensure our Office will be in compliance with the new standards when they are finalized, we have undertaken an initiative to implement a stronger system of quality control. But we are not acting alone. This particular initiative is a corroborative effort of the four western legislative audit offices to ensure the development of consistent best practices.

The first phase of the initiative is to perform a self-assessment of our existing quality control practices to determine where gaps may exist. Once this first phase is completed, we will develop a common framework for all our offices, which we plan to complete by November 30, 2004. In the third phase, we will be developing training and key tools to implement new processes established under the framework.

The higher standards embodied in this new framework will increase audit costs within our Office, as will be the experience throughout the profession. For example, we will be performing an additional level of review on many of our audit files, spending more time and dollars on the professional development, education and training of our staff, and spending more time on collecting audit evidence and formally documenting our consultations, decisions and other matters that impact the content of our reports.

While we believe that our current processes are sound and have served us well over the years, it is clear that the audit profession is raising the standards bar. We see this as an opportunity to continue to improve our organization.

Objective 2.2—Our work is conducted efficiently and reported in a timely manner

What we did in 2003/04 to achieve our objective

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.
(One of our value statements)

To be an exemplary organization, we must be, and be seen to be, financially and operationally accountable and transparent. We seek to provide our audit staff with strong administrative, technical and professional development support. Support activities such as information technology, human resources and administration are a necessary and integral part of our organization. These support functions equip our audit staff with the right knowledge, tools and resources to perform effectively and efficiently. With limited resources, we must continually strive to optimize support costs and maximize the effectiveness and productivity of our staff.

We are a project-based, professional service organization. With the cyclical nature of our workload, we must plan, schedule and manage our projects carefully. To do this, we need timely and accurate information on the status of our projects. This gives us information for making decisions, as well as for responding quickly when priorities shift or new opportunities arise. It also gives us the information we need to be accountable for our financial and operational results.

When we carry out our work, the importance of "getting it right," which is about meeting our professional responsibilities, always outweighs doing it on time and on budget.

Key Measure	2003 Actual	2004 Target[a]	2004 Actual	2005 Target
14. Percentage of projects completed on **time**:				
■ Financial statement audits[b]	75%	80%	88%	100%
■ Performance reporting projects[c]	75%	80%	66%	85%
■ Risk projects[c]	55%	80%	0%	70%
15. Percentage of projects completed on **budget**:[d]				
■ Financial statement audits	60%	80%	43%	85%
■ Performance reporting projects	Not measured	80%	33%	85%
■ Risk projects	80%	80%	0%	85%

[a] The 2003/04-2005/06 Service Plan did not break down our projects by line of business. We have since changed this measure to reflect these differences.

[b] We define "on time" for our financial statement audits as being within five months of year end.

[c] We define "on time" for performance reporting and risk projects as being within one month of the timelines defined in the approved audit plan.

[d] We define "on budget" as being no more than 5% greater than the budget hours outlined in the approved audit plan.

Description

The timeliness of our reporting is related to the relevance of our work. Completing projects within budgets reflects accurate planning and effective use of resources.

Our targets vary somewhat by line of business, reflecting the different management challenges they each present. Our risk projects are the most challenging to manage since each is unique and therefore hard to predict. There is no "standard" risk audit in terms of an average length of time or budget. The reason for this is that we don't know the details of the scope and resources needed for the audits until an initial survey of the specific program area has been made and detailed audit criteria prepared. It is also not unusual for us to expand the scope of our work after the audit is well underway. In most cases this is due to the discovery of risks that we had not identified in our plan.

Explanation of Results

For the most part, we have been successful in the timeliness of the reporting we do on financial statement work. For this work, we must meet statutory obligations. What this means in practice is that we sometimes reallocate staff from our risk audits to our financial statement audits. As a result, however, we have been much less successful in meeting our time commitments for our risk audits. In 2003/04, we were unable to meet our estimated timelines for any of the three risk audits we completed, and many other projects that we planned to complete during the year were deferred or extended. In some of these cases, we have deferred projects to take on others of greater or more immediate interest to our clients, the public and the Legislative Assembly. Being responsive to our client's needs sometimes means exceeding the timelines we outline in our audit plans.

In 2003/04, we were not very successful in completing our work within budget. While our overall Office spending is well within budget, most of our individual projects were not on budget. Performance measure 15 is based on a project-by-project analysis. When we combined all of these projects together into one total, we found that we were 23% over budget overall.

We believe that our tendency to exceed project budgets is primarily a planning deficiency. We have a tendency to be optimistic in our plans and do not build in room for contingencies. While conducting audits, it is common for us to encounter staff turnover or unforeseen issues that result in additional or extended audit procedures that must be performed to meet professional standards. An additional factor outside of our control is the readiness of the organizations we audit. Our budgets and timelines assume a certain level of effort and cooperation from the organizations we audit and, in some cases, this does not happen in a timely basis.

We plan to take a close look at our planning and project management practices and systems over the next few months and make whatever changes are necessary to improve our results without compromising the quality of our work.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
16. Percentage of our resources (measured in dollars) devoted to audit support	27%	27%	25%	24%[a]
17. Percentage of audit hours of audit staff charged against annual available hours	74%[b]	78%	76%	79%

[a] The target in the 2004/05-06/07 Service Plan was 26%. However, given that we have already reduced our percentage to 25%, we believe we can further reduce it to 24% in 2004/05, and have restated the target accordingly.

[b] The result has been restated from the 2002/03 Annual Report to reflect a minor change we made to the calculation to make it more consistent with how we calculated performance measure 16.

Description

Measure 16 shows the cost of business support such as human resources, IT and administration as a percentage of total Office costs. As these costs are reduced or spent more efficiently, more resources are available for audit operations.

Measure 17 shows the percentage of total annual available hours of audit staff that was spent directly on audit work during the year. Annual available hours represent total hours charged by staff, less leaves and vacation. Operational staff include all audit staff, audit management and executives. If administrative support is at an optimal level, and if audit work is well planned and managed, the percentage of hours available for audit work may increase.

Explanation of Results

Our result for measure 16 was better than the target. Reorganization of certain administrative and support functions allowed us to reduce our audit support costs in 2003/04. However, our result for measure 17 was lower than target, although better than 2002/03.

Looking ahead

To improve our efficiency and timeliness, we will continue to review our current administrative processes and systems and compare ourselves to other legislative auditors, making improvements as advisable.

We intend to move towards more disciplined project management, which in time should give rise to more accurate project budgets. We also plan to conduct post-project reviews to identify opportunities for improvements in future projects. This is something we have done in the past, but not consistently or in a formal manner. We intend to introduce a more structured process for these reviews.

In 2003/04, we developed an issues tracking system to deal with issues that arise during our financial statement audits. This system allows staff to view our past responses to similar issues in real time. We believe this will help improve our efficiency and consistency in future audits.

We will also continue to share services and expertise with other legislative officers where it makes sense to do so, while still maintaining our independence. And we will further develop our internal website to manage our audit knowledge more efficiently.

Objective 2.3—We have the organizational capacity to complete our work

What we did in 2003/04 to achieve our objective

We seek to maintain a relationship of mutual respect and trust with those we service, and willingly share our experience and expertise. (One of our value statements.)

We must have the capacity—that is, the knowledge, skills, resources and information systems—we require to do our work competently and effectively. Key to this is a match between what competencies the Office needs and what employees have. To meet our needs for staff development, we need to be looking ahead 18–36 months for emerging issues that will affect our capacity to carry out our work plan and meet our goals. These include issues such as new professional practice standards, new types of assurance we can provide legislators, expertise needed for new types of government programs, and opportunities to use new technologies to become more efficient in the conduct of our work.

The most important component of our capacity is our people. We need to manage our staff composition carefully to ensure we have the right people with the necessary competencies to meet our long-term goals and objectives. With the changes introduced by the new Auditor General Act, our role is also changing. Our profession is increasing professional quality standards to the highest level ever experienced. The demands of a competitive market place, the reductions in the number of professional accounting graduates entering the public service, and upcoming Office retirements in key positions are all providing a challenge for us as we try to ensure we have the right people doing the right things. These risks are making our recruitment, development and retention activities more vital than ever before.

Our competencies have been designed around three key areas: leadership, core, and technical competencies. We have made significant progress in developing our competencies within each of these.

Leadership competencies

Leadership development program

Leadership development is designed to grow leadership competencies internally to ensure a suitable supply of leaders for senior roles. The leadership development program is part of the Office's human resource systems that ensure we have the right person, in the right place, at the right time, with the right skill set.

Two candidates were selected in the 2004 fiscal intake period. Each candidate has developed a range of challenges, stretch assignments, and learning opportunities customized to the Office and her individual profile. Their work to complete the program will be carried out over two years. The next intake selection process will be conducted in the summer of 2004.

Training

During the year, 16 staff members attended courses provided by the Leadership Centre through the BC Public Service Agency. The courses were focused on daily leadership skills, team building, managing in an environment of constant change and high expectations, interpreting and achieving business goals, and developing a cross-organizational and societal perspective to better respond to future organizational issues.

Mentoring

With over 50% of our senior executive team in transition within an 18-month period ending October 2004, the Office has implemented mentoring and shadowing opportunities in such areas as governance, committee representation, special projects and others.

Technical competencies

Training initiatives

During the year, we had eight students working towards accounting designations. One of our students, Mark Johnston, obtained his CA designation in 2004.

Student training policy

Mark Johnston

Based on feedback from our student forum, the Office redesigned the student training policy to incorporate two new aspects. Each student will have a personalized plan of progression, which links the work assignments with the competency framework students need to achieve their practical experience requirements. In addition, a director–mentor will be assigned to each student to work with him or her to help realize the plan.

Developing partnering on student hires with the Office of the Comptroller General

Changes in our resources and our work plan limit the ability of the Office to provide the best training for large numbers of students. This, in turn, reduces the number of qualified professionals with public sector experience. To provide students with the best training opportunities and to maintain the supply of qualified professionals in the public sector, the Office is working with the Office of the Controller General to create a student training partnership.

Information Technology (IT) audit

Joji Fortin

The IT audit group works closely with their Canadian Council of Legislative Auditors (CCOLA) colleagues to identify ways to share knowledge and resources and better provide effective audits of new systems. We are developing in-house expertise in specific IT audit areas such as MVS and Unix operating systems, Oracle Databases and Oracle Financials systems. We currently have four staff members pursuing their Certified Information Systems Auditor (CISA) designation. One of our staff members, Joji Fortin, passed the CISA exam in 2004.

Performance report auditing

One of our three lines of business is focused on assessing the quality of government public performance reporting. As this type of audit is fairly new, we are still in the early stages of building capacity. We have focused our efforts in two directions.

Internally, we offer an assignment each year to one staff member to coordinate the Office-wide project, Building Better Reports. This project also involves, and builds knowledge in, a large number of staff across our operational sectors.

Externally, we communicate our Office's knowledge to interest groups and other audit offices through conferences and presentations.

Core competencies

Training and development plans, roll-up, coordination and communication

We have completed our second cycle using the employee performance development plan (EPDP) framework. Seventy-four percent of all of our employees completed an EPDP—an improvement over the 40% that completed them last year. These plans have allowed us to link learning requests and opportunities to the Office's goals and work plan needs. Through this process, we identified shared learning requests such as communication courses, writing skills, project management training, leadership training and experience and mentoring partnerships, which allowed us to better facilitate the development needs of the Office.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
18. Percentage of funding invested in learning and professional development[a]	5.0%	New measure	5.3%	5.5%

a This figure is measured as a percentage of our funding (salary and benefits only) invested in learning and professional development. It includes both out-of-pocket expenses (e.g., travel, course fees) and salary costs.

We are committed to the concept of personal and professional development and support quality-of-life endeavours.
(One of our value statements.)

Description

The Office is committed to investing in training and career development to ensure that we have the right people with the right talent. We believe our work is becoming more complex, and expect that the need for learning and development will therefore increase over the next three years.

Explanation of Results

This is a new measure for the Office, so we didn't have an established target. Our review of other professional organizations, including other legislative auditors, led us to believe that a target of between 5% and 6% was reasonable. Using another measure (average number of training days per staff), we found that our results were comparable to other audit offices in Canada.

Key Measure	2003 Actual	2004 Target	2004 Actual	2005 Target
19. The degree of fit between our desired competencies and our actual competencies	85%	85%	Not measured	Establish baseline

Description

A high correlation between our ideal competencies and our existing competencies is desirable, but a 100% fit may not feasible, although we can contract with external professionals to fill a portion of the gap.

Explanation of Results

We have no results to report this year because we are developing a new process that will link more closely to our competency framework. The methodology we used last year did not provide us with enough detail to identify which competencies had a close fit and which needed more focus. The more detailed assessment will guide our training, mentoring and hiring efforts to ensure that we are focusing our efforts in an appropriate direction.

Looking ahead

Over the next two years, we plan to continue to build our capacity by:

- Developing and implementing a human resource plan. This plan will identify longer-term strategies needed to manage the key human resource risks that may affect our ability to meet our mandate.
- Reviewing our staff profile to determine the gaps that exist in our desired competencies and then implementing a plan to close these gaps.
- Continuing to use Office competencies as a guide in all human resource management functions, including recruiting.
- Implementing a performance management system that will link the competency framework to performance expectations.

- Expanding performance management agreements to include all executive staff.
- Continuing to support our Leadership Development Program to ensure we have a cadre of staff ready to take on leadership roles in the Office.
- Continuing to focus on the implementation of learning and development programs for our staff that reflect the needs of the various positions.

Objective 2.4—We are an employer of choice

What we did in 2003/04 to achieve our objective

Because we recognize the investments already made in current staff and the ongoing challenge of attracting and retaining high performers, our objective is to maintain our highly skilled workforce by being an exemplary employer. In the past year, our turnover (calculated as the number of exits divided by the average FTE complement) increased to 17% from 10% in 2003 (Exhibit 8). About one quarter of this turnover was a result of the opportunities taken through the government voluntary and early retirement incentive programs. Of the remainder, the majority was for people who left to take positions elsewhere in government. While turnover has its challenges in the loss of corporate knowledge and competencies, it can also be positive, especially if it contributes to accountable and well-performing government.

Obtaining feedback from employees about the work environment

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on our working together, we promote a spirit of cooperation and teamwork throughout our organization. (One of our value statements)

"Engaged" employees are productive, passionate and committed. High employee engagement is a predictor of a high-performing organization. The Office conducts a biennial work environment survey, which allows us to understand the overall level of employee engagement as well as the extent to which we have lived up to the Office values. The last work environment survey was conducted in the fall of 2002. The engagement score at that time was 70%, which compares to a benchmark of 79% for a list of top 50 companies to work for in Canada (compiled by Hewitt Associates). We will be conducting another survey in 2004 and will report our key results in our 2004/05 Annual Report.

Exhibit 8

An Overview of human capital statistics for the past five years

	2000	2001	2002	2003	2004
Number of staff: (The person years worked during the year. For example, one person working for six months would only count as 0.5 of a staff member. Contracted resources are not included.)	87	87	88	88	88
Executive (Includes staff at Management Level 8 (ML8) and above.)	10	12	10	10	8
Audit	62	57	61	62	63
Corporate Services	15	18	17	16	17
Average training and development hours for staff (Includes all hours spent on internal or external learning events, divided by the person years worked.)	63	77	57	60	55
Total staff turnover (Calculated from the number of exits divided by the number of staff. Turnover for 2000 to 2002 has been restated to show consistent trends.)	8%	20%	13%	10%	17%
Student turnover	20%	8%	20%	0%	0%
Number of hires (Number of staff hired that were permanent and full-time.)	12	16	15	10	5
Number of exits (Number of staff who left voluntarily that were permanent and full-time.)	7	17	11	9	15
Number of staff with a professional accounting designation (Includes all staff with CA, CGA or CMA designation at the fiscal yearend.)	51	52	50	50	50
Number of staff with a Certified Management Consulting designation	7	7	8	7	5
Number of staff with Certified Information Systems Auditor designation	2	2	1	2	2
Number of accounting students (person years worked) (Includes permanent full-time staff that are being supported in obtaining their professional accounting designations.)	15	13	15	13	9
Average age of staff classified at ML5 and above	51	52	51	52	52
Number of staff eligible for retirement within 5 years (age 55 or more)	23	22	26	19	23

Source of data: The Corporate Human Resource Information System (CHIPS), and an internal database of the Office of the Auditor General

Exit interviews

As employees leave the office, we encourage them to discuss their experiences with their supervisor and our Human Resources practitioners. The results of the formal exit interviews are amalgamated to ensure anonymity and presented to the executive and all staff once a year. This information helps us to identify the strengths in our work environment and to focus our attention on areas that need improvement.

Sharing of best practices with other legislative audit offices across country

Our Office has a distinctive culture and environment that creates opportunities and challenges. In an effort to recognize those opportunities and develop strategies to meet the challenges, we communicate with other legislative audit offices across the country. This allows each office to share best practices and build a strong audit community for all the provinces and the nation.

Looking ahead

We want to be an employer of choice for talented professionals who want to make a difference. To achieve this, we plan to:

- Adhere to our corporate values in the way we behave towards our people.
- Continue to track our turnover and assess the reasons behind it through our exit surveys.
- Continue to measure, through our biennial work environment survey, the extent to which we have lived up to the Office values, and to respond to the results of this survey.
- Increase our communication within the Office to promote transparent decision-making.

Revenue

We receive our revenue from an annual voted appropriation of the Legislative Assembly, which provides for the operations of our Office and includes amounts for specific items such as salaries and benefits, rent, travel and other costs. We also recover costs by charging fees for various engagements carried out with Government entities.

In the fall of 2002, our Office made a budget presentation to the Select Standing Committee on Finance and Government Services for funding for fiscal 2003/04. We requested funding equal to that approved for the previous year. The funding we requested was sufficient to enable us to carry out a program of work designed to provide the Legislature with the information needed to assess the performance of government, and which we considered feasible in terms of our capacity. The committee, however, recommended a 5% reduction in our base appropriation from the prior year. The committee also advised our Office to expect a further reduction of 10% in 2004/05, which was subsequently approved by the Legislature in the fall of 2003. Total approved spending for 2004/05 includes an appropriation of $7.069 million plus approved recoveries of $2.300 million. The committee also advised our Office that no further reduction in our appropriation is expected in 2005/06.

Exhibit 9 presents our financial performance in relation to our approved budget and Exhibit 10 presents our financial performance over the last four years.

The total appropriation and recoveries approved by the Legislature for 2003/04 were $9.801 million, consisting of $7.901 million of appropriation plus $1.900 million for recoveries. During the year, approval to spend and recover additional costs items increased our revenue available to $10.516 million. Total expenses for the year were $10.169 million, resulting in an unused appropriation of $0.348 million, or 3.4% of the revenue available. Recoveries were higher than budgeted by $0.363 million as a result of additional assurance work requested and undertaken during the year. To ensure that we do not overspend, we avoid building up a workforce that is not sustainable by our approved revenue.

Exhibit 9

Financial performance against budget
($ thousands)

	Fiscal 2004 Budget	Fiscal 2004 Actual	Variance	Fiscal 2005 Budget
Sources of Revenue				
Appropriation	$ 7,901	$ 7,901	$ -	$ 7,069
Unused Appropriation	-	(348)	348	-
Recoveries	1,900	2,264	(364)	2,300
Other Amounts	-	(352)	(352)	-
Total Revenue	$ 9,801	$10,169	$ (368)	$ 9,369
Expenses				
Total Salaries and Benefits	$ 7,091	$ 7,611	$ (520)	$ 6,563
Professional services	1,080	1,007	73	1,039
Building Occupancy Charges	430	443	(13)	456
Office Expenses	335	319	16	338
Travel	292	231	61	306
Data and Voice	228	237	(9)	297
Capital Asset Amortization	200	188	12	219
Public Reports	84	70	14	95
Grants	61	63	(2)	61
Total Expenses	$ 9,801	$ 10,169	$ (368)	$ 9,369

However, even when changes to our work program result in additional recoveries we may not able to staff up quickly enough to effectively use those additional resources within the year, because of unavoidable lags in planning, hiring and training.

Salaries and benefits

Overall salary and benefit costs for the year exceeded the planned amount by $0.520 million and were $.394 million higher than the prior year. The increase in base salary this year was only $.060 million, and higher benefits costs and vacation accruals added another $.085 million. Most of the increase is due to a

Exhibit 10

Analysis of Revenues and Expenses

	Actuals				Line Items as a Percent			
	2004 $	2003 restated $	2002 $	2001 $	2004 %	2003 %	2002 %	2001 %
Sources of Revenue					As a Percentage of Revenue			
Appropriation	7,901,000	8,364,000	7,817,000	6,743,000	77.70	84.99	84.68	81.63
Unused appropriation	(347,493)	(691,223)	(585,572)	(182,900)	(3.42)	(7.02)	(6.34)	(2.21)
Recoveries	2,263,305	2,008,013	1,787,687	1,699,867	22.26	20.40	19.37	20.58
Other Amounts	351,912	160,876	212,287	0	3.46	1.63	2.30	0.00
Total Revenue	10,168,724	9,841,666	9,231,402	8,259,967	100.00	100.00	100.00	100.00
Expenses					As a % of Expenses			
Average FTE Usage	88.0	88.0	88.0	86.9				
Total Salaries and Benefits	7,611,247	7,217,003	6,753,076	5,944,947	74.8	73.3	73.2	72.0
Professional Services	1,007,201	930,740	903,038	912,517	9.9	9.5	9.8	11.0
Building Occupancy Charges	442,991	434,923	438,162	433,703	4.4	4.4	4.7	5.3
Office Expenses	318,526	346,914	408,114	286,402	3.1	3.5	4.4	3.5
Travel	231,438	340,457	298,412	258,445	2.3	3.5	3.2	3.1
Capital Asset Amortization	187,450	200,457	197,030	190,107	1.8	2.0	2.1	2.3
Data and Voice	236,537	244,757	130,428	145,560	2.3	2.5	1.4	1.8
Grants	63,000	61,000	61,000	57,000	0.6	0.6	0.7	0.7
Public Reports	70,334	65,415	42,142	31,286	0.7	0.7	0.5	0.4
Total Expenses	10,168,724	9,841,666	9,231,4002	8,259,967	100.0	100.0	100.0	100.0

$0.352 million charge related to our accrual of future retirement benefits for employees leaving in fiscal 2004/05 under the early retirement departure program, which represents an increase of $.249 million from last year.

Our Office continues to use the services of short term auxiliary employees to assist with the audit of the public accounts each spring which helps smooth out the peak demand on our financial statement audit staff at fiscal year-end.

Professional services

We use the services of outside professionals to augment and support our assurance work. Services provided range from subject matter expertise on issues related to our audit sectors, to financial attest auditing of selected public bodies. We also engage qualified contractors to help us meet the requirements for delivering our audit of the public accounts to the Legislature in a timely manner.

Contract costs were slightly less than our planned costs and $77,000 higher than the prior year. This increase was primarily due to the additional use of contractors as temporary replacements for departing employees.

Office expenses

Office expenses are incurred for a variety of items including office supplies, stationery and postage, research materials, professional membership dues, training costs and course fees, and certain computer equipment and software purchases that are not capitalized.

Our spending on general office expenses was lower than planned by $17,000 and lower than the prior year by $28,000. Although we increased our direct training costs by about $24,000 to $168,000, this was offset by efficiencies and reductions in spending on other items that make up this category such as general office expenses and supplies.

Travel

Staff are occasionally required to travel as part of their duties such as when conducting audit engagements, attending learning events and meeting with colleagues to participate in professional and standard-setting organizations. During fiscal 2003/04, we spent $231,000 on travel, which was 20% less than planned and 32% less than in the prior year. Less travel was required due to several factors, including the location and nature of entities that were audited during the year and taking better advantage of training opportunities not requiring travel.

Public reports and advertising

During fiscal 2003/04, we spent $70,000 to produce our public reports and for recruitment advertising. This was comparable to last year, but was $14,000 less than planned. The variance was mostly due to a number of reports we expected to publish that will not be produced until early in fiscal 2004/05.

GREEN, HORWOOD, MUNRO & TUCKEY

CHARTERED ACCOUNTANTS

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May 14, 2004

AUDITORS' REPORT

To the Speaker,
The Legislative Assembly
Province of British Columbia

We have audited the Statement of Financial Position of the Office of the Auditor General of British Columbia as at March 31, 2004 and the Statements of Operations and Changes in Net Assets for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of British Columbia as at March 31, 2004, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Green, Horwood, Munro & Tuckey
CHARTERED ACCOUNTANTS

Office of the Auditor General of British Columbia
Statement of Financial Position
As at March 31, 2004

	2004	2003 Restated
Financial Assets		
Advances recoverable	$ 13,870	$ 16,614
Accounts receivable	1,364	7,516
Accrued recoveries for services (Note 4)	1,095,531	658,449
Government account (Note 5)	299,456	461,662
	1,410,221	1,144,241
Non-Financial Assets		
Prepaid Expenses	22,267	–
Capital assets (Note 6)	242,060	305,655
	$1,674,548	$ 1,449,896
Liabilities		
Accounts payable	$ 315,393	$ 330,008
Accrued leave (Note 7)	742,916	711,228
Accrued workforce adjustment (Note 8)	351,912	103,005
	1,410,221	1,144,241
Net Assets	$ 264,327	$ 305,655

The accompanying notes are an integral part of the financial statements.

Approved by:

Wayne Strelioff
Auditor General

Peter Gregory
Executive Financial Officer

Office of the Auditor General of British Columbia
Statement of Operations
For the year ended March 31, 2004

	2004		2003
	Planned	Actual	Actual Restated
Revenues			
Voted appropriation (Note 9)	$ 7,901,000	$ 7,901,000	$ 8,364,000
Less unused appropriation (Note 9)	–	(347,493)	(691,223)
Recoveries for services	1,900,000	2,263,305	2,008,013
Other amounts (Note 7)	–	–	57,871
Other amounts (Note 8)	–	351,912	103,005
	9,801,000	10,168,724	9,841,666
Expenses			
Salaries	5,815,000	5,790,846	5,731,213
Employee benefits (Note 10)	1,276,000	1,820,401	1,485,790
Salaries and benefits	7,091,000	7,611,247	7,217,003
Professional services	1,080,000	1,007,201	930,740
Building occupancy charges	430,000	442,991	434,923
Office expenses	335,000	318,526	346,914
Travel	292,000	231,438	340,457
Data and voice communications	228,000	236,537	244,757
Capital assets amortization	200,000	187,450	200,457
Public reports	84,000	70,334	65,415
Grants	61,000	63,000	61,000
	9,801,000	10,168,724	9,841,666

The accompanying notes are an integral part of the financial statements.

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets
For the year ended March 31, 2004

	2004		2003
	Planned	Actual	Actual
Net Assets – beginning of year		$ 305,655	$ 325,469
Appropriations for purchase of capital assets (Note 9)	$190,000	123,855	180,643
Capital asset amortization	(200,000)	(187,450)	(200,457)
Increase in prepaid expenses		22,267	
Decrease in Net Assets		(41,328)	(19,814)
Net Assets – end of year		$ 264,327	$ 305,655

The accompanying notes are an integral part of the financial statements.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

1. Nature of operations

The Auditor General is an Officer of the Legislature of British Columbia and operates independently of the Government. The Auditor General has a mandate to meet the requirements of the *Auditor General Act*. These requirements include providing an annual audit report on the financial statements of the government reporting entity and providing independent assessments and advice that will help the government improve its accountability and performance. All reports are made to the Legislative Assembly.

Funding for the operation of the Office of the Auditor General (hereafter the "Office") comes from a voted appropriation (Vote 2) of the Legislative Assembly, from recoveries for services and from deemed revenues in respect of workforce adjustment and leave liabilities funded centrally. All payments are made from, and funds are deposited in, the Province's Consolidated Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a) Accrual basis

The financial statements are prepared using the accrual basis of accounting.

b) Revenue

Voted appropriations are recognized and reported as revenue at the gross amount less unused appropriations.

Recovery for services revenue is recognized on an accrual basis in the period in which the work was performed and related costs were incurred. When work has been performed but not invoiced by year end, we estimate the value of the work done as a percentage of the total amount that will eventually be invoiced and recognize that portion as revenue in the current year.

Other amounts are recognized as revenue to the extent that they are included as expenses. These statements include certain expenses that are funded by the government. They are included so that these statements represent a complete picture of the financial status and operations of the Office.

c) Expense

Expenses are recognized when goods and services are acquired or a liability is incurred.

d) Net assets

Net assets includes the net book value of capital assets plus prepaid expenses. These represent the value of assets that will be used to provide services in future periods.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

2. Significant Accounting Policies (continued)

e) Statement of cash flows

A Statement of Cash Flows has not been prepared, as it would provide no additional useful information.

f) Capital Assets

Capital assets are recorded at cost less accumulated amortization and are classified and amortized in accordance with Government policy. Certain purchases subject to dollar amount thresholds, such as computer server hardware and software under $10,000, were recorded as capital assets in prior years but are now expensed. Amortization is provided on a straight-line basis over the estimated useful life of capital assets, as follows:

Computer hardware and software	3 years
Mainframe hardware and software	5 years
Furniture and equipment	5 years
Tenant improvements	5 years

3. Measurement Uncertainty

The calculation of accrued revenue from recoveries for services requires the use of estimates. When work has been performed but not invoiced by year end, we estimate the value of the work done as a percentage of the total amount that will eventually be invoiced and recognize that portion as revenue in the current year. When estimates are used there is a chance that there could be a material difference between the amount recognized and other reasonably possible amounts.

4. Accrued Recoveries for Services

	2004	2003
Assurance engagements performed by the Office	$743,524	$ 501,949
Assurance engagements performed by authorized agents of the Office	352,007	156,500
Totals	$ 1,095,531	$ 658,449

5. Government Account

All cash transactions of our Office are included in the Consolidated Revenue Fund of the Government, therefore, we do not maintain or report any cash balances. The government maintains clearing accounts in our general ledger which are debited or credited as we make payments or deposits. The amount shown under Government account includes the aggregate of all such transactions and represents the difference between our liabilities and financial assets and is in lieu of cash.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

6. Capital Assets

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 453,186	$ (256,809)	$ 196,377	$ 283,150
Mainframe hardware and software	31,452	(1,623)	29,829	0
Furniture and equipment	32,171	(16,317)	15,854	22,505
Tenant improvements	778,563	(778,563)	–	–
	$ 1,295,372	$ (1,053,312)	$ 242,060	$ 305,655

7. Accrued Leave

Accumulated liability with respect to vacation and other leave entitlements due to our employees is $742,916 as at March 31, 2004 (2003 – $711,228). Prior to the fiscal year ending March 31, 2003, the Office fully funded this amount by transferring funds to the Government's leave liability account. In 2003 the Government adjusted our leave liability account to reflect the full value of these entitlements. Adjustments made in 2003 were expensed by the Government and not by our Office, while adjustments made in 2004 were expensed by our Office. The net amount of our leave liability that was expensed by the Government for the fiscal year ending March 31, 2003 was $57,871. Although the Government incurred the expense in 2003 centrally, these amounts are related to the operations of this Office, therefore, they are reflected in these statements as employee benefits expense and as other revenue amounts. The 2004 amounts were funded from our appropriation.

8. Accrued Workforce Adjustment

During the year, the Office entered into early retirement agreements with several employees as part of a government-wide workforce adjustment strategy. The liability and the amount funded with respect to these agreements is $351,912 as at March 31, 2004 (2003 - $103,005). Although the Government incurs the expense for these arrangements centrally, these amounts are related to the operations of this Office, therefore, they are reflected in these statements as revenue, employee benefits expense, accrued workforce adjustment and Government account.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

9. Voted Appropriation and Unused Appropriation

Included in the Government's estimates and approved by the Legislative Assembly are the appropriations for our Office as voted through the *Supply Act*. The Office receives approval to spend funds through separate operating and capital appropriations. The unused appropriations cannot be used by the Office in subsequent fiscal years.

	2004			2003
	Operating	**Capital**	**Total**	**Total**
Appropriation	$ 7,901,000	$ 190,000	$ 8,091,000	$ 8,554,000
Recoveries for services	2,263,305	–	2,263,305	2,008,013
Other amounts (Note 5)	–	–	–	57,871
Other amounts (Note 6)	351,912	–	351,912	103,005
Gross funds available	10,516,217	190,000	10,706,217	10,722,889
Operating expenses	(10,168,724)	–	(10,168,724)	(9,841,666)
Capital acquisitions	–	(123,855)	(123,855)	(180,643)
Unused appropriation	$ 347,493	$ 66,145	$ 413,638	$ 700,580

10. Employee Benefits

Although our Office is excluded from union membership requirements, we participate in the Government's payroll and benefits programs and contribute through the Provincial Government payroll system for specific termination benefits as provided for under the Government's collective agreements and conditions of employment. Our Office is charged for these and other employee benefits on a cost recovery basis through a chargeback. The chargeback rate was 25.3% for the year ending March 31, 2004 (22.6% for the year ending March 31, 2003). The chargeback includes amounts for employee benefits programs, pension plan contributions, employer portions of statutory remittances, payroll systems charges, and centrally funded vacation and retirement liabilities. The chargeback rate is applied to all salaries and expensed with each payroll.

The Office and its employees also contribute to the Public Service Pension Plan. The Public Service Pension Plan is a multi-employer, defined benefit plan and is available to most of the Office's employees. The British Columbia Pension Corporation administers the Plan and payments to pensioners on behalf of our Office. The Public Service Pension Plan's management is based on a joint trusteeship whereby the risks and benefits are shared between the employees and employers.

Every three years an actuarial valuation is performed to assess the financial position of the pension plan and the adequacy of funding. The latest actuarial valuation report as at March 31, 2002 indicated a surplus.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

11. Restatement

The financial statements for 2003 have been restated to include an adjustment to accrued leave of $27,545 which was made by the government after our financial statements had been prepared and issued. Inclusion of this amount has the following effect:

	As originally stated 2003	As restated 2003
Leave liability	683,683	711,228
Revenues – Other amounts	30,326	57,871
Expenses – Employee benefits	1,458,245	1,485,790
Government account	434,117	461,662

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2004

12. Executive Compensation

Expenses include the following amounts for the Senior Executives of the Office:

	2004			2003
	Salary [1]	Benefits and Allowances [2]	Total	Total
Auditor General	171,250	46,671	217,921	214,900
Deputy Auditor General	132,480	37,909	170,389	165,060
Senior Principal [3]	0	0	0	58,670
Senior Principal [4]	92,970	27,097	120,067	111,399
Senior Principal [5]	92,970	21,996	114,966	111,399
Senior Principal [6]	87,392	21,719	109,111	111,399
Senior Principal [7]	92,970	21,996	114,966	111,399
Senior Principal [8]	87,392	21,060	108,452	111,399
Senior Principal [9]	92,970	21,996	114,966	111,399
	850,394	**220,444**	**1,070,838**	**1,107,024**

1. Salary includes regular base pay.
2. Benefits and allowances include: car allowance for the Auditor General and Deputy Auditor General; vacation payouts and professional memberships; the office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, healthcare, dental coverage, group life insurance, short and long term disability plans, and WCB Premiums.
3. Responsibilities – Corporate Services Sector (not full year)
4. Responsibilities – Education Sector. This position was occupied by more than one person during 2004.
5. Responsibilities – Finance and Transportation Sector
6. Responsibilities – Health Sector
7. Responsibilities – Natural Resources Sector
8. Responsibilities – Protection of People and Property Sector. This position was occupied by more than one person during 2004.
9. Responsibilities – Special Projects Sector

Appendices

Appendix A: Changes in the Performance Measures from the 2003/04 Service Plan to the 2004/05 Service Plan

Measures in 2003/04 Service Plan	Measures in 2004/05 Service Plan	Explanation for Change
1. Legislators believe the financial statements of government fairly present performance	1. Percentage of government entities fully following generally accepted accounting principles (GAAP)	This measure is trying to measure the same desired result, but we believe it now does so more objectively.
	2. Percentage of audited organizations following best practices in financial statement reporting	This new measure reflects our desire to measure the success of our strategy to encourage government organizations to adopt best practices in financial reporting.
2. The PAC and other MLAs believe that our work improves the reliability of government financial statements	3. Legislators believe in the value of the Auditor General's regular examination of government's financial statements	This is essentially the same measure, but worded differently to be consistent with other legislative audit offices so that we will be able to compare our performance to others. We also asked and reported on the percentage of legislators that believe our financial statement audits contribute to the public's confidence in government's finances.
3. The PAC and other MLAs believe that our work improves the quality of government service plan reports	5. Legislators make use of government's performance reports in their deliberations or decision-making	This is essentially the same measure, but worded slightly differently. We also asked and reported on the percentage of legislators that believe are work has had a positive impact on the quality of government's performance reports.
	6. Legislators make use of government's performance reports in their deliberations or decision-making.	This new measure monitors the achievement of our strategies to encourage government organizations to improve the quality of their performance reports so that they can be used by legislators and others to assess the performance of government.
4. Audited organizations believe that audits improve the quality of their service plan reports	4. Percentage of annual reports that have reached fundamentals in place for: ■ 1 reporting principle ■ 2–4 reporting principles ■ 5–8 reporting principles	This measure is trying to measure the same desired result, but we believe it does so more objectively.
5. The PAC and other MLAs are satisfied with the relevance of our audit topics	7. Legislators believe topics chosen by the Auditor General are relevant.	This is essentially the same measure, but worded slightly differently.

Appendix A: Changes in the Performance Measures from the 2003/04 Service Plan to the 2004/05 Service Plan

continued

Measures in 2003/04 Service Plan	Measures in 2004/05 Service Plan	Explanation for Change
6. The PAC and other MLAs found our reports sufficiently informative about the risk areas examined	8. Legislators believe in the value of our examinations of how risks are being managed	This is a similar measure, but worded slightly differently to be consistent with other legislative audit offices so that we will be able to compare our performance to others.
7. Key stakeholders are satisfied with the relevance and timeliness of our audit topics and the quality of our reports	12. Audited organizations are satisfied with the way we conduct our work	This is a similar measure, but we changed the focus to measure our professional relations because we believe there are better measures for relevance and timeliness (performance measures 7 and 14 respectively).
8. Percentage of recommendations endorsed by the PAC	9. Percentage of recommendations endorsed by the Public Accounts Committee (PAC)	No change
	10. Percentage of recommendations implemented	This new measure is simply a different way of summarizing the results of our follow-up work.
9. Legislators believe our work adequately meets their needs and addresses their priorities	See performance measures 3, 5, 7 and 8.	We've broken this broad measure into several distinct ones so that we are able to report on how legislators view each of our lines of business.
10. Legislators believe our work is reliable and credible	11. Legislators believe information in the Office's reports is presented in an objective and unbiased manner	This is essentially the same measure, but we changed the wording to be consistent with other legislative audit offices so that we will be able to compare our performance to others.
11. Percentage of selected audits meeting practice standards	13. Level of compliance with CICA quality control standards	This is essentially the same measure, but our methodology has changed.
12. Percentage of audits completed: ■ on time ■ within budget	14. Percentage of projects completed on time: ■ Financial statement audits ■ Performance reporting projects ■ Risk projects 15. Percentage of projects completed on budget: ■ Financial statement audits ■ Performance reporting projects ■ Risk projects	No change, other than we chose to measure and report by line of business rather than overall because it is more transparent and informative.

Appendix A: Changes in the Performance Measures from the 2003/04 Service Plan to the 2004/05 Service Plan

Measures in 2003/04 Service Plan	Measures in 2004/05 Service Plan	Explanation for Change
13. Percentage of fit between our skill sets and skill demands	19. The degree of fit between our desired competencies and our actual competencies	This is essentially the same measure, but we are changing our methodology to link it more closely to our competency framework.
	18. Percentage of funding (salary and benefits only) invested in learning and professional development	A new measure for this year, although we did report on this in our 2001/02 annual report.
14. Work environment engagement score	20. Work environment engagement score	No change.
15. Percentage of our resources devoted to audit support	16. Percentage of our resources (measured in dollars) devoted to audit support	No change.
16. Percentage of audit hours of operational staff charged against annual available hours	17. Percentage of audit hours of operational staff charged against annual available hours	No change.

Appendix B: Our Risk Management Strategies and Results

Risk Area	Risk Management Strategies	Results
Independence: We cannot be successful if we lose, or are perceived to lose, our independence.	For many years, we have been promoting changes to the Auditor General Act to strengthen our independence. We are also in the process of reviewing our professional practices to determine if they meet the new and more stringent professional independence standards. We also protect our independence by ensuring that we do not develop public policy.	In April 2003, the new Auditor General Act was established and included provisions that help strengthen our independence. In particular, under the Act, the Auditor General: ■ is appointed by an all-party committee of the legislature for a six-year term that can be renewed one time only; ■ is accountable to the Legislative Assembly, not to the government of the day; ■ is funded from a committee of the Legislature rather than from government; ■ presents his or her conclusions directly to the Legislative Assembly; ■ can ask the government for any information he or she needs to carry out the Office's mandate; and ■ has broad power to examine whether government organizations or trust funds are operating efficiently and effectively. In 2003/04, we worked with other public sector audit offices to review and interpret the new independence standards. We plan to continue working together and to make changes, as necessary, to our policies and practices to ensure we are compliant with them.

continued

Appendix B: Our Risk Management Strategies and Results

(continued)

Risk Area	Risk Management Strategies	Results
Relevance: We cannot be successful if we do not adequately understand or respond to the information needs of our stakeholders.	We manage this risk by monitoring the external environment to ensure our work addresses the areas of greatest interest to our clients and stakeholders. In 2004, we supplemented our more informal scanning with a structured survey of legislators and the organizations we audited.	Our survey of legislators found that 100% believed that our topics are relevant and that our work is important. Also, 100% of our recommendations included in our 2003/04 reports were endorsed by the Public Account's Committee (PAC). However, our survey of the organizations we audited found that only 43% believed we focused our attention on the most important issues within the scope of the audit. We need to follow up with these organizations to find out more about what issues they think we missed.
Credibility: We cannot be successful if we provide inappropriate or incorrect assurance and advice.	We managed this risk by continuing to update and meet quality control and assurance practices standards. Our survey of legislators and audited organizations also included questions related to our credibility.	In our survey, 94% of legislators said that our work was objective and unbiased, and 61% of the organizations we audited or assessed said that our work was objective and fair.[a] Again, we need to follow up with these organizations to better understand these results and determine what changes we need to make to improve our performance. Our quality control and assurance practices helped ensure that the audits we conducted in 2003/04 met current, professional standards. However, as standards become more rigorous, we know we will need to make further adjustments to our practices, and we plan to do this over the next two years. For more details on our quality control practices, see the discussion earlier in the report, under Objective 2.1. We also developed an issues tracking system to deal with issues that arise during our financial statement audits. This system allows staff to view how we've responded to issues in the past and to use that information more efficiently and consistently.

[a] As defined by the percentage of respondents who rated our performance as good or very good for two questions: (1) The auditors exhibited an objective attitude while conducting the audit; (2) The findings of the audit were reported in an objective and fair manner.

Risk Area	Risk Management Strategies	Results
Capacity: We cannot be successful if we do not have the required resources and competencies to carry out our mission.	The most important component of our capacity is our people. We manage the risk to our capacity by reviewing our current human resource practices, making adjustments to help retain and develop our current staff, and recruiting new talent to fill in our competency gaps.	The government's early retirement and voluntary departure programs have resulted in high turnover at the executive level. Over 50% of senior staff have left within an 18-month period ending October 2004. To prepare current staff to take on leadership roles, we established the Leadership Development Program and selected our first two candidates. They are undertaking stretch assignments and learning opportunities designed to prepare them for leadership roles in the future. We continued to encourage staff to use the employee learning plans (EPDPs) to ensure we direct our professional development activities towards addressing gaps in Office competencies. This year, 74% of our staff completed these plans, up from the 40% who completed them last year. We survey our staff every two years to monitor our progress on a number of related human resource strategies. Our next survey will be conducted in 2004.

Appendix C: Summary of Our Annual Report Self-Assessment

	Performance Reporting Principles						
Stage of Development	Public Purpose Served	Linking Goals and Results	Few, Critical Aspects	Risk and Capacity	Linking Resources, Strategies	Comparative Information	Disclose Key Reporting Judgements
Fully Incorporated (FI)							
Fundamentals in Place (FIP)	◆ ●	◆		◆			◆
In Process (IP)		●	◆ ●	●	◆ ●	◆	●
Start-up (SU)						●	

◆ 2003/2004 Assessment ● 2002/2003 Assessment

Public Purpose Served (FIP) – OAG's purpose, mission and legislated mandate is fully explained. The report describes OAG's three core business areas and describes the services and products that are provided in each area. OAG's clients and key stakeholders are discussed and the accountability relationships that exist with each of them is clearly explained. The report explains how OAG's services are delivered and the role of private sector auditors in the delivery of audit services. OAG's governance structure and public reporting relationships are also described. Values and Standards for Service are explained and incorporated into the discussion of how they guide and influence the delivery of services so that the reader can understand how OAG's conduct of business is influenced by these principles.

*To improve in this area of reporting, the OAG needs to…*explain how it knows that audit services delivered by private sector auditors are being delivered in a manner consistent with its Standards for Service and professional auditing standards.

Linking Goals and Results (FIP) – The report makes clear linkages to the 2004/05 Service Plan and explains changes to some of the measures originally reported in the 2003/04 Service Plan. Results are reported in relation to the goals, objectives and performance measures outlined in the plan. Fair and full explanations are provided for most of the results where performance expectations were not met and the report make references to OAG's plans for the future. The report fully explains how the mission, mandate, goals and objectives are all linked together.

*To improve in this area of reporting, the OAG needs to…*describe how its performance measures focus on the full range of issues that concern the public and the legislators.

Few Critical Aspects of Performance (IP) – The report describes goals, objectives, and outcomes that are important to OAG's clients and stakeholders. The performance results of all core business areas are included in the report.

To improve in this area of reporting, the OAG needs to… present more complete performance reporting include convincing explanations of why the information it reports is important to users and how this links to the public's and the legislator's priorities.

Risk and Capacity (FIP) – The report identified several key operational risks in OAG's internal and external environment. OAG's risk mitigation strategies and the results those strategies had on managing risks is also described in the report. OAG's capacity to deliver services now and in the future is also explained. The report describes OAG's strategies to strengthen its existing capacity to deliver services while managing with less resources.

*To improve in this area of reporting, the OAG needs to…*explain the impact risk and capacity constraints had on its performance results.

Linking Resources, Strategies and Results (IP) – The report described the OAG's financial performance and compared it to previous periods. Revenue sources are described. Variances from budget are identified and adequately explained. Actual revenues and expenditures for the preceding three fiscal periods are also included. The report has begun to make linkages between OAG's financial resources, its goals, core business areas, and performance results.

To improve in this area of reporting, the OAG needs to… provide more detailed information linking its funding levels to goals, objectives and programs. The report needs to present performance and financial information in a way that the reader can easily understand the linkages between the resources used in delivering its programs and the results it has achieved. Changes in funding that affected achievement of planned performance targets also need to be explained.

Comparative Information (IP) – The report presented one year of baseline data for some of the OAG's performance measures.

*To improve in this area of reporting, the OAG needs to...*include and explain long-term trend information for its measures and provide benchmark data from other similar organizations so that the reader can understand whether OAG's performance is improving, deteriorating or remaining static over time.

Disclose Key Reporting Judgements (FIP) – The report explained OAG's rationale for the measures it has chosen and describes the methodology used for compiling the data. The report also explained the sources of performance data and how frequently measurements of the targets were made. Interpretation of the results are included in the report and descriptions of planned changes in the future are also described. Responsibility for the performance data was affirmed by the Auditor General in the report.

*To improve in this area of reporting, the OAG needs to...*describe its confidence in the reliability of the performance data including the steps it has taken to validate the information presented.

Comparison of 2003/2004 Assessment to 2002/2003 Assessment

The OAG's 2003/2004 Annual Report has increased its assessment to Fundamentals in Place from an In Process rating for three of the following BC Reporting Principles: Linking Goals and Results; Relating Results to Risk and Capacity; and Disclosing the Basis for Key Reporting Judgements.

OAG increased its assessment for Linking Goals and Results by fully explaining how the mission, mandate, goals and objectives are all linked together and by reporting results in relation to the goals, objectives and performance measures outlined in its Service Plan. OAG significantly enhanced its reporting for Relating Results to Risk and Capacity by expanding its reporting to include key risks and risk mitigation strategies and by describing OAG's capacity to deliver services now and in the future. OAG's reporting on its Basis for Key Reporting Judgements was improved in several areas by: including descriptions of data sources and limitations; interpreting its performance results and explaining the methods used to compile data and the frequency of measuring its results.

Appendix C: Summary of Our Annual Report Self-Assessment

The assessment of the remaining four BC Reporting Principles are unchanged from the 2002/2003 Annual Report with three of the reporting principles still requiring improvement to increase beyond an In Process assessment.

Monitoring the Government's Finances (Report 5)

The Public Accounts of the Government of British Columbia contain the government's Summary Financial Statements, Provincial Debt Summary and other financial information. Along with the annual budget, statistical and economic information published by the government, the Public Accounts present much information needed to monitor government's finances. Similar information is provided by the federal government and other provincial governments.

We concluded that while the government of British Columbia continues to improve the timeliness and standards of its financial accounting, it still has a long way to go in analyzing and explaining its finances to the public in a clear, complete and understandable way.

There is a growing realization among financial statement preparers and users that the information included in general-use financial statements does not adequately explain the many facets of a business or of government. We believe that government should be doing what other large private sector corporations do—namely providing a better explanation of its finances in the "management discussion and analysis" section of the Public Accounts.

In our report we try to do just that. To demonstrate, we provided a seven-year analysis of financial statement trends, and other financial and economic measures and indicators, that are useful for monitoring the state of the government of British Columbia's finances. We also provided some indicators that are helpful in comparing the Province to other Canadian jurisdictions.

We use the CICA's indicators of financial conditions when measuring the financial well-being of the Province. In general, most of the financial indicators show that the financial condition of the government has declined over the last year compared to its past performance and to other provinces, despite a much lower actual deficit than budgeted for 2003/04.

We believe most citizens of British Columbia will not be able to effectively monitor their government's finances if complete, relevant information is not properly analyzed and explained in the Public Accounts in a clear and understandable way.

Through this report we encourage the government to do just that. We made two recommendations:

1. "We recommend that the government include the discussion and analysis of its finances in its Public Accounts. As a starting point, the information should be similar to that provided in this report, prepared in a manner consistent with best practices for the disclosure of such information."

2. "We recommend that the government use the indicators of financial condition identified by the Canadian Institute of Chartered Accountants, and other important financial and economic measures, in its discussion and analysis to inform the legislators and citizens of British Columbia of the state of the government's finances."

Adopting Best Practices in Government Financial Statements 2002/03 (Report 3)

This is a report we issue each year after the audit of the Public Accounts is over.

Our audit of the Public Accounts, for the year ended March 31, 2003, resulted in two reports: the audit opinion, attached to the Summary Financial Statements, and this report on adopting best practices.

The government continues to focus on adopting best practices in its financial reporting. In this report we acknowledge the progress it has made, and suggest further improvements. We also explain that we included a qualification of the Auditor General's Report on the Summary Financial Statements of the Government of British Columbia because the financial statements were incomplete. The government-controlled schools, universities, colleges and health care organizations were not included in the 2003/04 Summary Financial Statements. The government is committed to including these organizations beginning with the year ended March 31, 2005.

In this year's report we made six other recommendations on how government could improve its financial reporting. These concerned supporting early adoption of CICA recommendations, disclosing amounts set aside to fund future expenses, disclosing the estimates on the statement of operations, obtaining an actuarial

valuation for the liability for the retirement allowance, improving the financial information provided about sectors of government operations, and improving the way interest expense and debt are disclosed. We also provided an update on the status of recommendations made in prior years.

In addition, we explained the impact on the financial statements of four significant decisions made by the government: changing the accounting policy on recording equalization payments received from the federal government; writing down the investment in British Columbia Ferry Corporation, resulting from the pending transfer of control to the BC Ferry Authority; accounting for the government's restructuring exit expenses; and relinquishing control over regional hospital districts.

Building Better Reports: Our Review of the 2002/03 Annual Service Plan Reports of Government (Report 7)

In our third yearly review of the annual reports of government, we examined the quality of the reporting that government provides to the Legislative Assembly and public. We concluded that while most of the 2002/03 annual reports do show improvement compared to last year, overall they still do not fully inform readers about government's performance. Our review focused on the annual reports of 20 ministries, 14 Crown corporations and government as a whole. We are generally satisfied with the trend of improvement that government has made to date in incorporating principles of good performance reporting in its annual reports.

We used a learning model approach to assess the annual reports in terms of four stages of development in incorporating principles of good performance reporting. The stages are: Start-Up, In Process, Fundamentals in Place, and Fully Incorporated. On average, the reports were at the In Process stage of development for four of seven reporting principles, and at the Start-Up stage of development for three of seven principles.

Our analysis of the annual service plan reports, summarized by principle in our report, provides guidance to help organizations advance the quality of their reporting. We also bring greater focus to government's reporting by making public our assessment of each of the annual service plan reports we examined. Because of

this public profile and because we want to encourage good reporting, we met with key individuals within each government organization to discuss in detail our assessment of their organization's annual report. In all cases, they were keen to improve the quality of their organization's performance reporting.

A Review of Performance Agreements Between the Ministry of Health Services and the Health Authorities (Report 1)

We assessed the performance agreements between the Ministry of Health Services and the health authorities to determine if the agreements improved accountability for the delivery of regional health services to the public. Our conclusion was that implementing the agreements was certainly a significant step forward, especially in an area as complex as health care, but that many improvements are needed before these documents can be considered an effective means to achieve greater accountability.

Performance agreements between the ministry and the six health authorities were signed for the first time in the summer of 2002. We had three main reasons for reviewing the agreements. With the restructuring of the province's regional health care system, we recognized that the agreements needed to succeed as drivers of change and improvement. We also thought it was timely to review because they are emerging as an accountability tool across government. Finally, we wanted to give the Legislative Assembly and the public greater insight into the value of these types of agreements.

We reviewed the agreements from the following perspectives: governance, accountability and performance measurement and reporting. We found that the agreements needed greater focus and clarity about who is accountable to whom and how accountability is to be achieved. More work is also required in selecting the right performance measures. We made 20 recommendations aimed at helping the ministry ensure the agreements reach their potential of becoming the key accountability documents between it and each health authority.

Alternative Payments to Physicians: A Program in Need of Change (Report 4)

We conducted a review of the Ministry of Health's Alternative Payments Program (APP) and concluded that this program is poorly managed and needs to become much more accountable in how it funds physician services.

While the majority of the $2.5 billion spent on physician services in British Columbia is paid through the Medical Services Plan on a fee-for-service basis, the APP accounts for $300 million—not an insignificant amount. It pays physicians through contract, salary or time-based session agreements.

In our review, we examined the extent to which the program is aligned with ministry and overall government direction, the extent to which sound management practices are in place, and the extent to which the money spent and the services provided are linked to the achievement of results, particularly health outcomes. We determined that significant changes are needed within each of these areas and that basic program elements (objectives, for example) are lacking.

Many systemic and long-standing issues related to determining appropriate physician compensation arrangements have contributed to the APP's poor management for many years. Nevertheless, while it is a difficult program to manage, the ministry believes it to be a critical element in how to fund physicians in the future. The report offers 24 recommendations on how the ministry could turn this program into a more efficient and effective means of delivering health services.

Audit of the Government's Review of Eligibility for Disability Assistance (Report 6)

We examined whether the Ministry of Human Resources took appropriate steps in ensuring that former disability benefit recipients satisfied the eligibility criteria of the new Employment and Assistance for Persons with Disabilities Act. We focused on answering the following questions:

- Did the ministry adequately evaluate the timing and extent of the work needed to ensure that former disability benefit recipients met the eligibility criteria of the new Act?

- Did the ministry adequately manage the work it undertook, and did it use reasonable methods to assess the eligibility of individual recipients?
- Did the ministry achieve its review objectives?

We had three key findings:

1. The ministry did not adequately evaluate how best to meet its responsibilities to assess eligibility under the new Act.
2. Given the review it chose to carry out, the ministry did adequately manage the work and used reasonable methods to assess eligibility.
3. While the review helped the ministry meet the requirements of the new Act and increased assurance that only eligible clients receive assistance, it also created considerable anxiety among disabled clients and failed to achieve the cost savings the ministry expected.

We concluded that the ministry moved too quickly in fulfilling its responsibilities under the new Act. It embarked on a fast-track review of all former disability benefit recipients before (1) establishing that a significant risk existed of paying benefits to ineligible recipients and (2) fully investigating other options for confirming eligibility.

In the end, the ministry did not achieve the significant cost savings it thought it would by doing the review, as almost all benefit recipients were found to meet the new eligibility requirements. The review also created considerable anxiety among its disabled clients.

Follow-up of risk management reports (Report 2)

We issued a report in August 2003 summarizing the six follow-up reviews we carried out during the year:

- *Management of the Information Technology Portfolio in the Ministry of Attorney General (2001/02: Report 5)*
- *Information Use by the Ministry of Health in Resource Allocation for Decisions for the Regional Health Care System (2001/02: Report 6)*

- *Management Consulting Engagements in Government (2000/01: Report 4)*
- *Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use, Ministry of Health and Ministry Responsible for Seniors (1998/99: Report 2)*
- *Fostering a Safe Learning Environment: How the British Columbia School System is Doing (2000/01: Report 1)*
- *Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service (2002/03: Report 1)*

We were pleased to discover that, overall, 82% of our recommendations had been substantially or fully implemented.

Appendix E: Our Review of Forgiveness of Debt Related to Fish Farm Operations

The results of examinations undertaken by the Office are reported to the Legislative Assembly, usually in separate reports that describe each examination. Appendix D summarizes the reports issued in 2003/04. One examination undertaken by the Office during the past year, however, was not reported separately.

Every year, we receive numerous letters, e-mails and telephone calls asking that our Office look into particular issues. The Auditor General takes all of these requests seriously, assigning them to appropriate staff to undertake preliminary enquiries about the issues raised. When additional information has been gathered, we decide whether further examination is appropriate and, if so, what should done and when.

Most requests are not pursued, for one or more reasons:

- they might be outside the Office's mandate (for example, concerns about administrative fairness or government policy);
- they might be unreasonable; or
- they might not represent a prudent use of the limited resources of the Office.

After preliminary examination, some requests are deferred for consideration in future work plans. Others result in additional work being done immediately because they raise significant issues, the review of which should not be deferred.

Generally, when additional work is done immediately, the results of our examination are reported in a separate report. On rare occasions, the results of our examination do not justify a separate report, but are of sufficient significance that they should be brought to the attention of the Legislative Assembly.

In February 2004, a public interest advocacy organization wrote to the Auditor General requesting that he "undertake an audit of decisions made by British Columbia Assets and Lands Corporation (BCAL) .... to forego collection of fines assessed against aquaculture companies operating in non-compliance with their aquaculture tenures." According to the request, it appeared that BCAL "forgave up to $1.5 million in fines assessed against the non-compliant companies, contrary to established policy and without any Ministerial or Cabinet review or approval." This request was the subject of a substantial amount of media attention.

Appendix E: Our Review of Forgiveness of Debt Related to Fish Farm Operations

We completed a preliminary examination of the issues raised and concluded that some of them were outside the Office's mandate in that they dealt with policy decisions concerning the administration of Crown land tenures.

Other concerns related to inconsistent information in internal government documents. Our preliminary examination confirmed that estimates of the financial impact of policy recommendations did change during development of the recommendations to the CEO of British Columbia Assets and Lands Corporation. However, we concluded that the magnitude of these differences did not appear to be sufficient to justify the time and cost required to reconcile them.

At the same time, our preliminary examination did determine that Land and Water British Columbia Inc. (the current name of the corporation that was British Columbia Assets and Lands Corporation) was unclear about the application of the Financial Administration Act to its operations. We undertook an additional investigation, and concluded that the corporation was subject to the Act, at least with respect to those activities where it was acting under the authority set out in a delegation agreement between the Minister of Environment, Lands and Parks and British Columbia Assets and Lands Corporation concerning the administration of Crown land. The Auditor General reported his conclusion to Land and Water British Columbia and the Comptroller General of the Province.

As government becomes more complex in its structure, with the development and use of various agencies, semi-independent authorities and trusts, it is important for the Legislative Assembly to be concerned about how government ensures that all organizations receiving public funding and entrusted with public duties comply with the obligations associated with public accountability.

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